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Nova Scotia

Report of the

AUDITOR GENERAL

March 31, 1989

90-03606/

Nova Scotia

Honourable A.R. Donahoe, Q.C.
Speaker
House of Assembly

I have the honour to submit herewith for the year ended March 31, 1989, my Annual Report to the House of Assembly, in accordance with Section 8 of the Auditor General Act.

Respectfully submitted

O.P. Cormier

O.P. Cormier, F.C.A.
Auditor General

Halifax, Nova Scotia
January 31, 1990

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INTRODUCTION

Introduction

The format and structure of this year's Annual Report are similar to that of prior years, except that there is a brief summary at the start of most articles. The Summary article, page 12, has been slightly reduced.

The article on page 138 describes the Office's plans and initial field work during the year in the audit of transfer payment recipients. There was audit activity at universities and school boards in 1989.

Several extensive reviews of crown agencies and corporations were completed during the year. It is our expectation that our scheduled review of all such agencies and corporations, prepared in mid-1985 to encompass a five-year period, should be completed in 1990.

The reviews of crown agencies, as well as our special examinations in individual departments and on a government-wide basis, are concerned primarily with the management of a function, operation, project or program. It is my contention that these are not only more beneficial to the entity concerned, but represent more meaningful reporting to the Legislature on how well government departments and agencies fulfill their responsibilities.

Three topical matters from previous years' Annual Reports are included again this year. These are:

— an extensive description of the role and responsibilities of the Auditor General, to promote better understanding of the mandated responsibilities of this Office;

— a further discussion of the subject of accountability, supplemented this year by a commentary on the Report of the Nova Scotia Royal Commission on Health Care; and

— an article on financial position and operating results, to provide increased focus on critical financial matters.

The mode of reporting for my Annual Report is one which might be termed "reporting by exception". We must comply with the reporting requirements of Section 8 of the Auditor General Act, as well as those that flow from Sections 7, 14 and 16. Accordingly, the majority of audit findings and comments point to shortcomings and weaknesses and suggest corrective action.

However, as I have indicated in previous Annual Reports, *"The majority of our departmental audit reports contain positive findings and conclusions resulting from our audit assignments."* To provide a more complete perspective on our audit activities during the year, listings of all audits performed are included in this Report as Appendices II and III. By comparing the extent of commentaries found in the sections relating to crown agency audits, special departmental reviews, and other observations, with the 76 audits listed in these Appendices, the reader can conclude that the majority of our audits do not result in reportable findings and conclusions.

Previous Reports have acknowledged, where possible, auditees' responses to our audit conclusions and recommendations. This year, we have again afforded auditees the opportunity to react to our recommendations and indicate corrective action.

It is my contention that the role of an Auditor General is not only to report to the House of Assembly in accordance with the legislative responsibilities under the Act, but also to provide auditees with constructive evaluations and recommendations for improvement that are practical and can be acted upon. Accordingly, it is most satisfying when an unfavourable audit observation is recognized as requiring positive remedial action, and this action is promptly undertaken.

It is my pleasure to acknowledge the excellent cooperation extended to our office staff by the officials and staff of government departments and agencies. In particular, I would like to express my thanks for the various administrative and support activities provided by the Civil Service Commission, Management Board, the Departments of Finance and Government Services, and the Systems and Computer Services Division of the Department of Government Services.

The performance of our administrative and audit staff deserves special commendation. The magnitude and depth of audit activity carried out during the past year were indicative of staff competence and dedication. This is especially noteworthy as we undertook extensive new assignments in the audit of transfer payment recipients and other areas. I am indeed most appreciative of their efforts and contribution.

* * * * * *

SUMMARY

Summary — 1989 Annual Report

This summary presents an overview of the principal matters covered in the Report. At the start of most articles there is a brief summary. Accordingly, this section of the Report does not provide many details, but rather identifies what is covered in the articles.

Audit Responsibilities

There are two articles in this section of the Report. The first one, "Role and Responsibilities of Auditor General", describes the objectives of this Office; the participants in the audit process; the types of audits performed; and contains a commentary on the independence of the Office. A reading of this section should provide a fairly good understanding of the purposes and function of the Auditor General's Office.

The second article "Scope of Audit Examinations" refers to provisions of the Auditor General Act and indicates the audits actually performed during the current audit year.

Accountability and Management

This section highlights aspects of the accountability process with particular reference to matters relating to the Estimates process, the functioning of the Public Accounts Committee, and the audit process. As part of a commentary on developments towards the achievement of a greater degree of accountability in the public sector there is a separate article which discusses certain observations and recommendations from the Report of the Nova Scotia Royal Commission on Health Care.

Financial Topics

The "Financial Position and Operating Results" article includes analysis and commentary on four indicators commonly used in an evaluation of financial position and operating results; namely net debt, operating deficit, major revenues and expenditures, and a comparison of actual results to the Estimates.

"Additional Appropriations" provides a schedule of those over $50,000, and a commentary explaining the reasons for certain of the larger ones.

Crown Agencies and Corporations

In addition to a commentary on the results of our review of the auditors' reports for all crown agencies for which we are not the appointed auditors, this section of the Report includes the results of four audit assignments performed during the year.

- **Check Inns Limited** — A review of the Corporation's organizational structure, operating policies, and procedures, from which we concluded that there is a need for some improvements in management practices.

- **Halifax-Dartmouth Bridge Commission** — A review of key operating areas including financial management and debt administration, from which we concluded there is a need for more formal policies for debt management and debt retirement. The article includes detail on the refinancings of 1969, 1979 and 1989.

- **Nova Scotia Liquor Commission** — An assignment was undertaken to review the decision process relating to the acquisition of the new distribution centre and head office facility at Bayers Lake Industrial Park. We reviewed the financing and costs associated with this acquisition, and capacity utilization.

- **Victoria General Hospital** — A review which focused primarily on financial management practices, but also dealt with associated administrative functions at both the Victoria General Hospital and the Victoria General Hospital Foundation, which found a number of deficiencies with respect to these practices.

Special Departmental Reviews

Four audit assignments of a government-wide nature are described in this section.

- **Computer Related Audits** — In a series of three articles, there is a description of:

  — follow-up to our 1988 Annual Report comments relating to Password Access Security, Department of Finance — Trusts and Debt Management Systems, and the Registry of Motor Vehicles;

  — a review of policies, standards, and controls relating to microcomputers; and

  — an assessment of the adequacy of procedures to control program changes to information systems operating at the Provincial Data Centre.

- **Government-Wide Departmental Audit** — Results of a revised approach to the audit of revenues and expenditures in which the audits of most departments were consolidated into one large audit assignment.

- **Grants and Assistance** — A review of 38 programs covering $275 million in grants and assistance was performed. Although policies, guidelines, and general administration were generally satisfactory, there were recommendations for improvement in areas such as the evaluation of results, documentation requirements, consistency among departments, and criteria for grants and assistance.

- **Vehicle Utilization** — A review of vehicles used primarily to transport government personnel in the course of their employment was performed. It was found that there was a need for a more centralized responsibility for vehicle management, and a lack of reliable information on a central government-wide basis.

Follow-up audit activity was performed in two departments.

- **Department of Finance, Provincial Tax Commission** — A determination of the current status of recommendations from audits performed in each of the past two years was undertaken, as well as additional audit work in the Gasoline and Diesel Oil Tax Division of the Commission.

- **Department of Labour, Office of the Fire Marshal** — We determined the status of recommendations from a special review of this office performed in 1987. Although more efficient methods and procedures have been introduced in many areas of the inspection process there has not been an appreciable increase in the number of inspections for liquefied petroleum gas installations, building plan approvals, and inspections by, or on behalf of, municipalities.

Audits were performed in four departments which involved an assessment of both accounting and management systems and controls.

- **Consumer Affairs** — We examined four areas of the department: Orderly Payment of Debts; Financial Institutions and Revenue Division; Amusements Regulation Board; and Insurance Premium and Fire Prevention Tax Revenues. We found the systems and controls adequate although we had recommendations for improvement in some areas.

- **Government Services** — We examined four areas in this Department: revenues and recoveries; expenditures; telecommunications; and client services for the Systems and Computer Services Division. We found the controls to be reasonably adequate, although we identified some deficiencies in the client services section and billings for recoveries.

- **Nova Scotia Commission on Drug Dependency** — Our objectives were to determine if there were reasonable management procedures and controls for the various segments of the Commission's operations. We found deficiencies in the procedures to measure the efficiency and effectiveness of the various programs on a timely basis.

- **Department of Health and Fitness, Community Health Services** — We looked at the Ambulance Subsidy, Community Health Nursing, Public Health Inspection, and Coordinated Home Care Programs. We found controls reasonably satisfactory, but result indicators and measureable objectives were deficient in the Ambulance Subsidy Program and Community Health Nursing.

- **Lands and Forests** — We examined management procedures and controls in Forest Protection, Parks and Recreation, and Land Services, and reviewed progress from our last audit on accounting controls. We found controls and procedures to be reasonably good, but had recommendations in some areas.

Transfer Payments — Audits were commenced during the year in two areas receiving government assistance — universities and school boards. An article on these transfer payment audits describes the objectives, the scope of the examination, and the audit process to date. There will be articles on the results of these audits in the 1990 Annual Report.

Other Audit Observations

Four articles in this section of the Report are of significance.

- **Accounting Function Performance** — Extensive delays were experienced in the completion of five of our financial statement opinion audits, largely due to lack of priority and attention to accounting matters by staff of these entities.

- **Nova Scotia Business Capital Corporation** — We are the appointed auditors of the Nova Scotia Business Capital Corporation and three associated entities, namely Industrial Estates Limited, the Industrial Expansion Fund, and the Industrial Loan Fund. We experienced considerable difficulties in completing our March 31, 1989 audit due to various administrative problems and questions on the legal status and authority of the Corporation. The background to these problems and our recommendations relating to them are presented.

- **Provincial Retirement Plans** — This year's article comments on the most recent actuarial review of the Teachers' Pension Fund, and also a cash flow study of the Fund, both of which indicate a fairly serious condition.

- **Reservations of Opinion** — In accordance with the provisions of Section 7 (b) and (d) of the Auditor General Act, it was necessary to reserve our audit opinion on five audits because of a lack of adequate accounting and financial controls.

Status Prior Years' Observations and Recommendations

This section tabulates the status of observations and recommendations from prior years' Annual Reports which are still outstanding or were dealt with during the current audit year.

Office of the Auditor General

This section includes information on staffing, financial results, various professional and training activities, and other related matters pertaining to the Office.

* * * * * *

AUDIT RESPONSIBILITIES

Role and Responsibilities of Auditor General

Introduction

This year's Report includes a description of the role and responsibilities of the Auditor General and the auditing environment within which the Office functions. This is to provide an understanding of what this Office does in fulfilling its mandated responsibilities. The description of the functions performed by internal auditors and external auditors in comparison to ours should help to explain their respective roles. An appreciation of certain proposed amendments to the Auditor General Act should be enhanced by this presentation. Finally, and perhaps most significantly, this description will strengthen an understanding of the accountability process in Government, a topic dealt with separately in a following section of this Report.

Our comments are organized under four captions.

Role of the Auditor General
Independence of the Auditor General
Participants in the Audit Process
The Auditor General Act

Role of the Auditor General

Objectives — The primary objective of the Auditor General is to assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

To achieve this objective, the Auditor General examines the accounts of the Province and presents an Annual Report to the Legislature. This Report is then discussed with the Legislature's Public Accounts Committee.

A secondary objective of the Auditor General is to assist Deputy Ministers and agency heads in holding their administrators accountable to them, by reporting on the quality of the stewardship of public funds in the department or agency.

This objective is not stated in the Auditor General Act but it is a logical extension of our primary objective. It is achieved when we report to the Deputy Minister or agency head at the conclusion of an audit. These reports include assessments of the significant areas audited, as well as our recommendations for improvement.

Activities — The audits performed by this Office fall into three categories — attest, compliance, and broad scope — with the latter further sub-divided into crown agencies and corporations, special assignments, and transfer payment audits.

Attest Audits

Attest or financial statement audits are the ones with which the general public is most familiar. They involve the expression of an opinion on a set of financial statements as to whether the results of operations and the financial position of the

entity have been fairly presented in accordance with its stated accounting policies, and whether such policies are consistent with those used in the previous year.

An important aspect of attest audit work is the study and evaluation of internal controls. Internal controls are the systems and procedures developed by management to safeguard assets, and to ensure the accuracy and reliability of accounting data. Section 7 of the Auditor General Act (reproduced in Appendix I) gives the Auditor General responsibility for ascertaining whether essential records are maintained and procedures are applied regarding revenues and expenditures, and the safeguarding of public property.

Although we assess the internal controls in government departments and agencies, the audit opinion on the Public Accounts is given by a firm of private sector auditors. The Auditor General does express an opinion on the financial statements of numerous crown agencies and funds (see Appendix III).

The manner of conducting and scheduling our audits of government departments was significantly revised in the current year. The results of the first year's experience are described more fully in the article "Government-Wide Departmental Audit", page 113 of this Report. Essentially the revised approach we have adopted involves the auditing of payroll and other expenditures on a government-wide basis in one single large audit assignment, rather than in a series of separate audits in individual departments. On the basis of sampling techniques, audit tests of the documentation and records in most departments will be performed each year.

Compliance Audits

Audits are conducted in government departments and crown agencies to assess whether transactions and other aspects of operations comply with legislative and other requirements. These include Provincial Acts, Regulations of Government, Management Board policies, and directives of the departments and agencies. Sections 7 and 16 of the Auditor General Act assign the Auditor General responsibility for conducting these compliance audits.

Our compliance auditing responsibility is fulfilled by the "Government-wide Departmental Audit", described above under attest audits, supplemented by several in-depth individual departmental audits, such as the Provincial Tax Commission audit. These audits, which are performed on a cyclical basis, comprise a significant portion of our annual audit activities.

Broad Scope Audits

Broad scope audits focus on the actual management of a functional area, including programs and projects. More specifically, these audits are designed to determine whether:

- the program or activity under review is economically administered, with goods or services being obtained in the proper quantities at the proper times and at economical prices;

- the work is performed efficiently making the best use of available human and material resources;

— reasonable attempts are made to measure and report on program results; and

— appropriate and timely information is available to management for decision-making purposes.

It is important to note that this Office does not evaluate the effectiveness of programs or develop standards to measure efficiency of program delivery. These functions should be performed by the management of the department or agency. This Office assesses the extent to which management has carried out these functions.

Such audits have been conducted regularly by this Office, and several are reported upon in this Report. The three types of broad scope audits we perform are:

Crown Agencies and Corporations — We review broad issues such as the management and organization of the entity, and the manner in which it is meeting its legislated or other objectives. These audits are performed in those agencies and corporations where this Office is not the appointed auditor, in accordance with Section 16 of the Auditor General Act. (Four audits of this type are described in the section commencing on page 56.)

Special Assignments — These include an in-depth review of an activity or program within a department, and government-wide reviews of an activity or function. (Nine audits of this type are described in the section commencing on page 96.)

Transfer Payment — By virtue of amendments made in 1988 to the Auditor General Act, this Office has the mandate to perform examinations and audits of entities or organizations receiving financial assistance from government. During the year, we commenced these examinations at several universities and one school board in the Province. (An article on page 138 describes these audit initiatives more fully.)

Reporting Process — The annual reporting responsibility of the Auditor General to the House of Assembly is set forth in Section 8 of the Auditor General Act, reproduced in Appendix I.

The Public Accounts are tabled in the House of Assembly in accordance with provisions of the Provincial Finance Act, no later than the tenth day of sitting. The Auditor General's Annual Report is tabled on a day following this, usually in the third or fourth week of the Session. Subsequent to its tabling the Report is discussed with the Public Accounts Committee, whose meetings are open to the general public.

To assist Deputy Ministers and agency heads in holding their administrations accountable to them, we issue reports at the completion of all departmental and agency audits.

At the conclusion of each audit, the reporting process normally involves:

— discussing the draft report with senior officials of the department or agency;

— revising the draft report, as a result of this discussion, or from review by senior management in our Office;

— issuing the final report to the department's Deputy Minister or, in the case of agencies, to the agency head and the Minister in charge of the agency; and

— further discussion of the report if requested by the department or agency.

The findings, observations, conclusions, and recommendations included in the various articles in this Annual Report relating to specific departmental, crown agency, and government-wide audits are all derived from reports issued throughout the year.

Independence of the Auditor General

To enhance the independence of the position of the Auditor General, I have again included certain suggested revisions to the Auditor General Act. These are presented in a section on the Act, beginning on page 22.

The Auditor General must be perceived to be independent from all sources of bias and interference. To ensure such independence the Legislature has enacted the Auditor General Act to set out the mandate of the Auditor General. He is appointed by the Governor in Council, and may be removed upon the passing of a resolution to do so by the Legislature, carried by a vote of two-thirds of the Members voting on it.

Administratively the Office of the Auditor General is separate from all government departments and crown agencies. However, the resource requirements of the Office are subject to approval by Management Board, Executive Council and the Legislature.

Only if the Auditor General is truly independent of the Government will he be able to fulfill the role described above and report objectively to the Legislature. If the audit reports or the work underlying them are constrained in any way, the Legislature cannot be confident that it has been given the proper tools with which to hold the Government accountable.

Participants in the Audit Process

Internal auditors, private auditing firms (commonly referred to as public accounting firms), and the Auditor General participate in the audit process within government departments and crown agencies. A brief description of the role of each follows.

Internal Auditors

Internal auditors perform audits in their departments and agencies on behalf of management. Their responsibilities include auditing both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability. To avoid duplication of effort this Office relies wherever possible on department and agency internal auditors.

Internal auditors are employees of the department or agency, and support management by helping to ensure that control procedures are reliable. They generally report to their department head and the deputy minister or, in the case of a crown agency, to the agency head.

Private Auditing Firms

There are crown agencies and corporations whose annual financial statement audit is performed by a chartered accountant other than the Auditor General. Appendix IV schedules these.

Under Section 16 of the Auditor General Act, I am provided annually with these audited financial statements, and all reports to management prepared by their auditors. A summary of our review of these reports (usually termed management letters) is found in the article on page 56.

Also, the Act provides that my Office may conduct such additional examination and investigation of the records and operations of these agencies as I deem necessary. Since this provision was enacted in 1973, it has not been possible to conduct reviews in all these agencies and corporations. In 1985 we prepared a five-year plan providing for a minimum of one audit examination in each crown agency and corporation during that period. During 1989 three such examinations were completed. These are reported on separately beginning on page 59.

Nova Scotia is the only province in Canada that engages a public accounting firm to attest to its financial statements. Although my Office does not have the responsibility for expressing a formal audit opinion on the Province's financial statements, we do review them. On the basis of this review we have stated in our Annual Reports since 1983 that the financial statements are an appropriate presentation of the Province's financial position and operating results.

Auditor General

Sections 7 and 8 of the Auditor General Act contain the basic auditing and reporting responsibilities of the Auditor General. These Sections are summarized on page 23, and are reproduced in Appendix I.

The fundamental distinction between the Auditor General and the two other types of auditors is that he is a servant of the House of Assembly. Not only are his rights, duties and responsibilities contained in legislation, but he is required to report annually to the House and meet with a standing committee of it.

This process is part of the British parliamentary system, found in all Canadian provinces and at the federal level, as well as in most other democracies. Over a century old, it is an essential part of the accountability process for a democratic government.

The Auditor General Act

The Auditor General Act was proclaimed in 1973, and minor revisions were made in 1976. Significant amendments to the Act were made in 1988, and became effective June 1, 1988. These amendments covered three principal areas.

- The authorization to audit the accounts of those to whom government grants and other assistance have been provided.

- The responsibility to report all instances in which expenditures are not made with due regard for economy or efficiency.

- Other minor amendments to the Act, more of a housekeeping nature, to better reflect contemporary legislative requirements.

However, two areas in which I had proposed amendments were not included in the 1988 revisions to the Auditor General Act. One of these dealt with what I consider to be requisite legislative provision for a greater degree of independence relating to this Office. In particular, the appointment of both the Auditor General and the Deputy Auditor General should, in my view, have a degree of participation by some type of all-party representation. In addition, it would seem that there should be provision for a committee of the House, rather than the Government, to have exclusive jurisdiction in administrative, budgetary and related matters to ensure that the independence and proper functioning of the Office is not impaired.

The second revision I proposed refers to the responsibility for the audit opinion on the financial statements of the Province. Nova Scotia is the only province in Canada which engages a public accounting firm to attest to its financial statements. This responsibility should be assumed by our Office for a variety of reasons. Currently there is an unwarranted duplication of audit effort and unnecessary additional audit costs. Moreover, it is my contention that a more independent accounting to the Legislature would be provided by having the Office of the Auditor General perform this audit responsibility.

Scope of Audit Examinations

The responsibilities for audit in Section 7 of the Auditor General Act state that the Auditor General is required to examine, in such manner and to the extent he considers necessary, accounts relating to both money received and money expended, and to ascertain whether in his opinion:

— all public money has been fully accounted for;

— money has been expended for the purpose for which it was appropriated by the Legislature;

— money has been expended without due regard to economy or efficiency;

— the accounts have been properly kept; and

— essential records and procedures are maintained to safeguard and control public property.

The reporting provisions of Section 8 state that there must be brought to the attention of the House every case where:

— any person has wilfully or negligently omitted to collect or receive money belonging to the Province;

— public money was not fully accounted for and paid into the Consolidated Fund;

— any appropriation was exceeded or applied to a purpose or in a manner not authorized by the Legislature;

— an expenditure was not authorized or properly vouched or certified;

— there has been a deficiency or loss through fraud, default or mistake of any person;

— a special warrant authorized the payment of money;

— money has not been expended with due regard to economy and efficiency; and

— any other case that the Auditor General considers should be brought to the notice of the House.

Sections 7 and 8 of the Auditor General Act are reproduced as Appendix I of this Report. In addition, Section 14 regarding special audits of recipients of financial assistance from Government, enacted effective June 1, 1988, is included in Appendix I.

The scope of the audit activity of my Office may be classified under six distinct headings, each of which is described below:

1) *Auditor General Act, Section 7 Requirement*

To meet the legislated requirements of Section 7, my Office conducts reviews of the accounting systems, controls, and transactions within the departments of government. These reviews involve tests of systems, accounting records, and other supporting evidence.

All systems in every department are not subject to annual audit. Although the audit work undertaken is selective, it encompasses sufficient activity in major departments to fulfill the mandate prescribed in Section 7.

To provide a perspective regarding the extent of the Office's auditing in the departments of government, a listing of 46 audits in 20 departments performed in the past year is in Appendix II of this Report.

The topics, reported in "Other Audit Observations" beginning on page 154, represent matters from the audits on this listing for which there is a reporting requirement under the Auditor General Act. Comparison of the number of topics dealt with in this Report with the number of audits performed will indicate that only a small portion resulted in findings having to be reported to the House.

The manner in which we perform our audits of department revenues and expenditures was modified significantly in 1989, as described more fully in the article commencing on page 113.

2) *Audits of Crown Agencies*

The Auditor General is the auditor of 30 crown corporations, boards, commissions, and funds. These appointments flow from the Acts of the entities, Order in Council appointments, or appointments made by the Boards of the entities. In each case, it is my responsibility to express an opinion on the annual financial statements of the entity.

A schedule of these audits may be found as Appendix III of this Report. Most of these financial statements are published in the Public Accounts of the Province.

3) *Audits by Other Chartered Accountants*

There are other crown agencies and corporations whose annual audit is performed by a chartered accountant other than the Auditor General. A schedule of these may be found as Appendix IV.

The Auditor General Act provides that my Office be furnished annually with both the audited financial statements, and all reports prepared by the auditors of these agencies and corporations. My Office reviews these audited financial statements, and the management letters or reports from the entities' auditors. The results of this review are included in an article on page 56.

Further provisions of Section 16 of the Act (see Appendix I) empower my Office to conduct such additional examination and investigation of the records and operations of crown agencies as we deem necessary. This we attempt to do at least once every five years.

During 1989 examinations were completed at Check Inns Limited, the Halifax-Dartmouth Bridge Commission, and the Victoria General Hospital Foundation. As well, a special review was conducted at the Nova Scotia Liquor Commission concerning its new office and warehouse premises. These are reported upon separately beginning on page 59.

4) *Other Audit Assignments*

In addition to examinations performed under the Section 16 mandate, my Office usually conducts one or more special audit reviews of departments, crown agencies, or corporations under Section 7 of the Auditor General Act. These assignments may be an in-depth review of a given segment or program of a department or agency, or the review of a function that is performed in several departments, referred to as a government-wide or horizontal study.

Twelve such assignments were performed in the current year, each of which is presented in this Report.

Computer Related Audits
Microcomputer Resources (page 101)
Systems Maintenance Controls (page 104)
Department of Consumer Affairs
Amusements Regulation Board, Financial Institutions, Insurance and Fire Prevention, and Orderly Payment of Debts (page 108)

Department of Finance
Provincial Tax Commission (page 110)
Department of Government Services
Client Services, Telecommunications and
other Revenues and Expenditures (page 117)
Government-Wide Departmental Audit
Revenues, Expenditures, Systems and Controls (page 113)
Grants and Assistance
A Government-Wide Review (page 120)
Department of Health and Fitness
Commission on Drug Dependency (page 124)
Department of Health and Fitness
Community Health Services (page 128)
Department of Lands and Forests
Forest Protection, Land Services,
and Parks and Recreation (page 135)
Vehicle Utilization
A Government-Wide Review (page 145)
Victoria General Hospital
Financial Management, Materiel Support
Services, and Industrial Engineering (page 78)

In addition we conducted updates to previous audit assignments.

Computer Related Audits
Follow-up to 1988 Reviews (page 97)
Department of Labour
Office of the Fire Marshal (page 131)

5) *Transfer Payment Audits*

To meet the legislated audit requirements under Section 14 of the Auditor General Act, as enacted effective June 1, 1988, my Office in 1989 commenced reviews in two groups of entities that receive financial assistance from government.

These audits were performed at several universities and one school board in the Province. An article on page XX describes this audit activity more fully.

6) *Federal Provincial Cost-Sharing Claims*

My Office has the responsibility to certify claims for various cost-sharing programs of the Province with the Government of Canada. For the fiscal year ended March 31, 1989, a total of 594 claims were audited, relating to 19 separate agreements involving 142 projects.

It is our responsibility to determine that the departments concerned have complied with the terms of the agreements, and that the amounts claimed are in accordance with the agreements.

To November 30, 1989 all claims submitted to various federal departments and agencies for the fiscal year ended March 31, 1989 have been paid.

However, the Canadian Forestry Service requested the refund of $250,000 from the Department of Lands and Forests for applicable credits which they maintain had not been taken into account in determining the amount claimed from them. The Department of Lands and Forests claim that all applicable credits have been taken into account. The matter is still under negotiation.

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ACCOUNTABILITY AND MANAGEMENT

The Accountability Process

Summary

This article notes the increasing demand for greater accountability on the part of those entrusted with the management of resources, whether they be in the public or private sectors. Initiatives are being undertaken by various recipients of government grants and assistance to achieve greater accountability, and there is an increasing emphasis being placed on the effectiveness with which tax dollars are being managed.

Three aspects of the accountability process in Nova Scotia are discussed.

- I have recommended that the Legislature, probably through its Public Accounts Committee, initiate a meaningful review of the Estimates process to see how it might be improved to better serve the Members of the House of Assembly.

- The Nova Scotia Public Accounts Committee has not, in my view, functioned as effectively as it might have in recent years, and certainly not in keeping with all of the guidelines of the Canadian Council of Public Accounts Committees. Four items warrant attention, namely: a formal enunciation of the role and responsibilities of the Committee; the use of a more formal agenda for its meetings; a meeting format which results in firm recommendations to be included in an Annual Report to the House of Assembly; and a process which ensures adequate follow-up action regarding recommendations.

- The article repeats previously expressed recommendations for amendments to the Auditor General Act regarding independence of the Office.

A section of this article is devoted to various statements of the Royal Commission on Health Care regarding the need for:

— a high degree of accountability from those to whom government delegates responsibility;

— allocation of capital and human resources to health care to achieve a more efficient utilization and better value for the money spent; and

— planning and management of health care expenditures as an intrinsic component of an integrated economic strategy, as these expenditures affect and are affected by other sectors of the economy.

Introduction

Over the past several years my Annual Reports have discussed the accountability process, explaining its components, and giving a perspective on how the audit function fits into this process. Rather than repeat the background from these Reports, this article will highlight significant matters from them, and touch briefly upon some contemporary thinking relating to accountability.

There is an increasing demand for greater accountability on the part of those entrusted with the management of resources, whether they be in the public or private sectors. Simply stated, accountability is the obligation to answer for a responsibility conferred. It presumes the existence of at least two parties, one who allocates responsibility, and one who accepts it with the undertaking to report on the manner in which it has been discharged.

The critical fiscal position of governments throughout this country, and indeed much of the Western World, focuses increasing attention on accountability for the use of public sector resources. Taxpayers are entitled to prudent use of tax dollars. Since all demands upon the public purse cannot be met, administration of publicly funded resources must be judicious. Thus certain deserving requests may not be funded because of insufficient resources.

Two initiatives by the Provincial Government have been previously acknowledged in my 1987 and 1988 Annual Reports. One is the deficit reduction program and the other is the Strategic Planning Process. Each is a worthwhile effort to improve the management of government resources and provide a greater degree of accountability for their use. However, as the following paragraphs will describe, there are further initiatives which should be considered in order for accountability and government resource management to be optimized.

A key thrust of much of our special audit work in crown agencies, transfer payment recipients, department programs, and government-wide activities is to assess how monitoring and reporting systems deal with accountability for resources entrusted. Another objective is to ensure that governing bodies, and ultimately the Legislature, are aware of how well delegated resources are being managed.

It is my view that the quality of reporting to legislatures for responsibilities conferred must receive greater attention. Unfortunately all organizations entrusted with the ultimate management of taxpayer dollars do not report to outside parties as well as they might. Some are not asked to do so, others do not believe that they must, and some believe that a set of audited financial statements completely fulfills their reporting responsibilities.

Accountability includes reporting on how well objectives have been achieved and how efficiently and effectively resources have been managed. Until this is recognized the accountability for administration of resources to the taxpayer, as represented by the Legislature, will not be fulfilled.

Illustrations

Some of the articles in our recent Annual Reports have focused directly on accountability and the need to enhance an understanding of it. In the 1986 and 1987 Reports there were articles on internal audit and cash management which had direct relevance to this topic. In 1988 there were two articles concerning accountability which raised the following points.

- Based upon a review of the use of result indicators it was stated that performance measurement systems will only achieve maximum benefit when they move to levels applicable to senior management. Most departments have not reached this stage.

- In a discussion resulting from our review of a select number of boards and commissions we recommended that Government provide a set of operating guidelines for accountabilities and responsibilities, as well as suggested practices for the functioning of boards and commissions.

Perhaps the two most noteworthy developments towards achieving greater accountability for the use of tax dollars are initiatives being undertaken by various recipients of government grants and assistance, and the increasing emphasis being placed on the effectiveness with which these tax dollars are managed.

Those who receive government grants and assistance (often referred to as transfer payment recipients) have become more aware of the need not only to manage more efficiently and effectively, but to be more accountable to their governing bodies and the public whose dollars they are spending. The recent Report of the Nova Scotia Royal Commission on Health Care devotes considerable attention to accountability, fiscal challenge, and more effective use of resources.

As a result of the Canadian Comprehensive Auditing Foundation's 1987 study "Effectiveness — Reporting and Auditing in the Public Sector", considerable activity has taken place in the public sector directed towards gaining a greater understanding of the principles enunciated in this study, and introducing effectiveness systems and evaluations. The study indicated that effectiveness is a complex concept not susceptible to a simple definition. In recognition of this, the study classified effectiveness into twelve elements or attributes: management direction, relevance, appropriateness, achievement of intended results, acceptance, secondary impact, costs and productivity, responsiveness, financial results, working environment, protection of assets, and monitoring and reporting.

Those who have carefully considered the implications of this study contend that its implementation is critical to an improvement in the utilization of public sector resources. Unless there is a concerted effort to manage effectively, measure the effectiveness of all endeavours related to the spending of tax dollars, and account in a meaningful way for the management of public sector resources, then efforts to meet the fiscal challenge regarding public finances and fulfillment of the stewardship functions by public sector and transfer payment managers will be seriously deficient.

Key Aspects of Accountability

Three aspects of the accountability process as it currently exists in the Province are the Estimates, the Government's reports on actual results (which include the Public Accounts and departmental annual reports), and the Public Accounts Committee. A fourth, the audit function as performed by this Office, supplements the accountability process. For several years our Annual Reports have included considerable discussion of each of these four aspects. This year the treatment is abbreviated to re-emphasize significant matters from prior Reports.

Estimates — The Estimates are the first step in the accountability process and, as the foundation for the other stages, may well be considered the most important. The Estimates summarize the Government's financial plan for the fiscal year and include revenue, and operating and capital expenditure programs. They are presented to the House for debate and vote, and are included in the annual Statutes of Nova Scotia.

In mid-1988 the Canadian Council of Public Accounts Committees released a study entitled "Guidelines for Public Accounts Committees in Canada". The study states that *"In recent years, Public Accounts Committees and other legislative bodies have expressed growing concern about perceived weaknesses in the estimates process, and the impact of these weaknesses on the overall accountability cycle"*.

There have been in-depth reviews of the estimates process in recent years by the legislative audit offices of the Federal Government, British Columbia, Ontario and Manitoba. In all cases significant issues have been raised such as: the time available by legislators to review the estimates; the use of Select Committees for this review; the cycling of in-depth reviews; and the use of performance or other selected measures of the efficiency and effectiveness of programs and support activities.

It has been acknowledged in our Annual Reports that the Estimates of the Province are submitted in a logical and well-organized manner. However it can be said, without conducting an in-depth review, that there are shortcomings, two of which are commented upon here.

One is the failure or inability of the Legislature to delve into some aspects of the spending patterns, even in major areas, on a regular basis. The second is the inability to relate actual performance to the estimates because of the lack of specific performance objectives and result measures. This is compounded by significant departmental annual report shortcomings relating to timeliness, content, and lack of performance measures as noted in last year's Annual Report (on the basis of a review performed in 1988 of departmental annual reports).

The primary accountability document of a government is the Public Accounts. However, an organized and in-depth review of actual performance to original plans and projections is not performed by the Public Accounts Committee.

Accordingly, I recommend strongly that the Legislature, probably through its Public Accounts Committee, initiate a meaningful review of the Estimates process to see how it might be improved to better serve the Members of the House of Assembly.

Public Accounts Committee — The Canadian Council on Public Accounts Committees' 1988 Guidelines Study has two statements about accountability: *"The process of spending and accounting for public money begins and ends in the Legislature. The final link in this process is provided by the Public Accounts Committee."* and *"Parliament has given the Public Accounts Committees the responsibility to hold Government accountable for their management of the public purse, a task which must be accomplished if the Parliamentary system is to be maintained in its present form"*.

The Nova Scotia Public Accounts Committee has not, in my view, functioned as effectively as it might have in recent years, and certainly not in keeping with all of the guidelines of the Canadian Council of Public Accounts Committees. There are certain key recommendations of this Committee which reiterate those of the 1981 Canadian Comprehensive Auditing Foundation Research Study entitled "Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors." The most critical of these are:

- The requirement for a more formal enunciation of the role and responsibilities of the Committee to include its mandate and its procedures and operations.

- The use of a more formal agenda, in order to promote a greater understanding of and a degree of preparation for issues being discussed.

- A meeting format which results in firm recommendations with respect to matters brought before it, and an Annual Report to the House which includes these recommendations.

- A process which ensures adequate follow-up action with respect to previous recommendations of the Committee.

It is hoped that the Committee will refer to the guidelines of its national association, and decide to implement them in Nova Scotia in order to improve the overall effectiveness of our Public Accounts Committee.

Audit — The audit function, although closely associated with, and often described as part of, the accountability process, is in fact superimposed upon the process. It provides an independent and objective point of view on statements of performance and associated information generated by those who have an accountability responsibility to fulfill.

The role of this Office in fulfilling its various legislated and appointed audit mandates is described more fully in a previous section of this Report, entitled "Role and Responsibilities of Auditor General". To fulfill its audit mandate with confidence and objectivity an Office such as ours must have a degree of independence commensurate with the responsibilities assigned to it.

Accordingly, I am repeating two recommendations concerning independence which would involve amendments to the Auditor General Act. These relate to the appointment of the Auditor General and the Deputy Auditor General; and the review and approval of the budget and related activities of the Office by a group which has a degree of all-party representation. It is interesting to note that there are recommendations contained in the previously referred to "Guidelines for Public Accounts Committees in Canada" which suggest that Public Accounts Committees should have the right to provide parliamentary scrutiny of the auditor's office by reviewing the estimates of the Office, reviewing the expenditures and the accounts of the auditor, and having input into the selection of the auditor.

Royal Commission on Health Care

Introduction — The Report of the Nova Scotia Royal Commission on Health Care released in December 1989 has received considerable attention because of the significance of health care and the many interested parties and professions involved. In January 1990, Dalhousie University presented an all-day forum on the Report with a group of well-informed speakers addressing three themes: the changing health care scene; health professionals — education and practice; and financing the health care system. This forum provided a worthwhile opportunity for many vitally concerned persons to participate in a discussion of the Commission's Report.

From public hearings leading to the preparation of the Report, and reaction to it, it is clear that: there was a high degree of input from many interested and knowledgeable parties in the Province; a large number of the concerns expressed by the Commission are not unique to Nova Scotia; and there is considerable support for change in many areas because of a recognition of the severity of the factors which are impacting upon the future of health care in the Province.

In my 1987 Annual Report I included three statements from the Report of the Nova Scotia Royal Commission on Post-Secondary Education, released in December 1985. The Commission stated that:

> *". . . accountability is more necessary than ever in time of restricted economic growth. . .";*
>
> *"Government and taxpayers alike should recognize that because of this financial condition, all demands cannot be met and many existing programs will have to be reexamined and possibly restructured"; and*
>
> *"The pressures to administer and control all expenditures with the utmost regard for economy, efficiency and effectiveness have never been so critical".*

These comments are quite similar to those contained in the 1989 Health Care Report and in many ways enunciate the fundamental concerns of both Royal Commissions.

I congratulate the Commission on the depth of the analysis it has presented relating to the many factors influencing health care. By so doing, there is provided an opportunity for involved parties to fully discuss their reactions to specific recommendations in an attempt to develop the most effective framework for administration of health care in Nova Scotia.

I appreciate and re-emphasize that many items of a critical nature must be considered. Equally important is the need to move expeditiously in as complete a manner as possible in addressing those situations which require policy setting and administrative realignments.

Observations — Some observations from the Report warrant mention because of their relevance to the topics of accountability and management of government resources discussed in this section of my Report.

- The Commission states that *". . .managing the health care system necessitates a high degree of accountability from those to whom Government delegates authority. Accountability and coordination will be strengthened by providing health care professionals with opportunities to participate in planning and management."* The Report also states that *"Information and evaluation are essential to management concerned with results. An information system must be developed to provide comparative data, analysis of operations and programs, population characteristics, and health care needs. Timely and accurate data will permit the evaluation of local health needs, more effective central and regional planning, and monitoring of outcomes".*

- *"A new health strategy will strengthen the relationship between available resources and health needs of the population through changes in the delivery*

of health services, the deployment of health personnel, the use of technology, and the allocation of capital and financial resources."

- In light of the Province's existing financial condition and prospects the Report notes:

  — *"Health care is the largest expenditure item in the Provincial Government's budget, comprising an estimated $1.1 billion for the 1989-90 fiscal year. Since 1980 health expenditures have consistently increased at rates higher than increases in total provincial spending. Nova Scotia has consistently ranked above the national average in terms of the percentage of Gross Domestic Product that it spends on health care."*

  — *"Public spending for physicians' services has grown faster in Nova Scotia than in other provinces. Since 1970 the supply of physicians in Nova Scotia has almost doubled, exceeding the growth rate of physicians for the country as a whole. Increased per capita spending on physician services is the result of several factors, including an increased supply of physicians, higher remuneration rates, and increasing utilization of services by the population."*

  — *"Nova Scotia's public and private expenditures on all forms of institutional care have increased and currently account for 54.3% of all health expenditures, exceeding the national average of 51.7%. Nova Scotia's occupancy rate of 75% for general hospital beds is low compared to the national average of 84%."*

- *"Expenditures on prescription and non-prescription drugs are increasing as a proportion of total health expenditures. Pharmacare Program costs, at 32% above the national average, increased an average of 18 to 20% annually during the past decade."*

Financing the health care system is the final topic in their Report. Although the Commission did not identify specific areas for cost savings or new sources of financing, it did indicate that:

— The current levels of expenditure on health care in Nova Scotia are fully adequate to provide quality services to Nova Scotians in a fiscally responsible manner.

— Adequate levels of financing of the health care system, or appropriate rates of growth, cannot be discussed without first establishing policy objectives with respect to results.

— The capital and human resources allocated to health care can be more efficiently utilized so as to realize better value for the money spent.

— Health care expenditures must be planned and managed as an intrinsic component of an integrated economic strategy, as they dynamically affect, and are affected by, other sectors of the economy.

The implications of unwillingness to address the financial condition of the present health care system are dramatically conveyed by two statements from the

Report. *"It is estimated that if current trends continue unchecked, health care costs will reach $3 billion by 2001 or 36% of provincial expenditures The implication of this is a reduction in the ability of the Province to pay for health care services, if all other factors are held constant. It is thus imperative to tailor health needs, streamline health services management, and develop more efficient spending policies."*

Concluding Remarks — There must be a recognition of the severity of Nova Scotia's current fiscal situation and certain future projections as they affect not only the ability to fund health care services, but other essential services of government. Accordingly, it is hoped that the need for change to the most efficient and effective system possible within the limited resources of the Province will be acknowledged. The interests of certain groups may well have to be modified to recognize the valid aspirations and needs of others, and to reflect a sense of fiscal responsibility, commensurate with the resources of this Province.

A comment made at the Dalhousie University Forum seems quite pertinent. It was from the Vice-President, Health Sciences and Professional Schools, of Memorial University of Newfoundland who, in a discussion of education and practice matters relating to health professionals, altered the title of his address to "Change — Opportunity or Threat?" He went on to say, *"Change by many is viewed as an opportunity but some view change as a threat to established ways of doing things or to a comfortable niche."*

It is my hope that the various parties and professions involved will provide the degree of support required to develop appropriate policies and effective and workable structures to administer health care services. As we enter a decade facing what might well be some of the most difficult fiscal challenges that our Province will encounter, it is incumbent that those involved in both the delivery and use of health care services have a due regard for the economic and social environment of Nova Scotia.

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FINANCIAL TOPICS

Financial Position and Operating Results

Our Annual Reports for the past several years have included commentaries on the financial position and operating results of the Province. In the past we have stressed the negative impact of accumulating deficits and increasing debt.

Again this year we comment on these same topics. Although the operating results of the current year represent a significant improvement (approximately $54 million) over the operating results of the prior year, the financial position of the Province as reflected in its net debt has not improved because of both continuing deficits on operations and capital expenditures.

The Government, in its Budget Address of May 5, 1989, indicated that it understands the critical financial situation which the Province faces. The Minister of Finance stated that the Government intends to balance the operating budget for the 1990-91 fiscal year. He also described the Government's future plans for deficit reduction as follows:

> *"The fiscal plan must not stop with balancing the operating budget. In the upcoming years the government will concentrate its efforts on reducing borrowing requirements. It is only when governments are able to stop the growth in the total debt that they can effectively begin to reduce the substantial costs associated with servicing that debt."*

We agree with the Government's assessment of the seriousness of the Province's financial position. We also believe that the objective of reducing the growth in the Province's debt, as stated above, is appropriate.

Net Debt

The most commonly used indicator of a province's financial position is its net debt, which is the excess of liabilities over realizable assets. The net debt is the sum of the accumulated operating deficits of the Province and capital expenditures. The Statement of Financial Position in the Public Accounts highlights this amount.

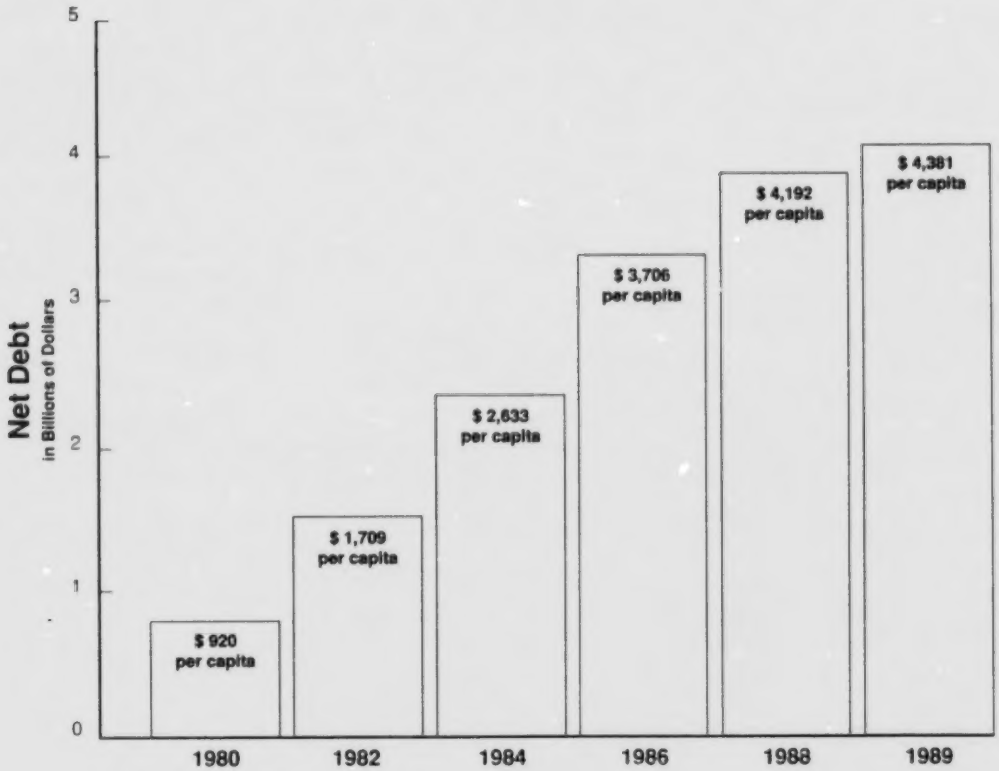
During the period from April 1, 1988 to March 31, 1989, the net debt increased by $192 million or 5.1% to $3.9 billion. Over the past decade, the net debt has increased to more than six times its 1979 level, from $651 million to $3.9 billion. This increase of $3.3 billion is attributable to:

Capital expenditures	$1.9 billion
Net excess of operating expenditures over operating revenues	2.1
	4.0
Less: Sinking fund earnings	.7
	$3.3 billion

Of the $3.3 billion increase in the net debt over the past ten years, 52.5% is attributable to operating deficits and 47.5% to capital expenditures. Exhibit I illustrates the growth of the net debt over the past ten years.

Exhibit I

Net Debt



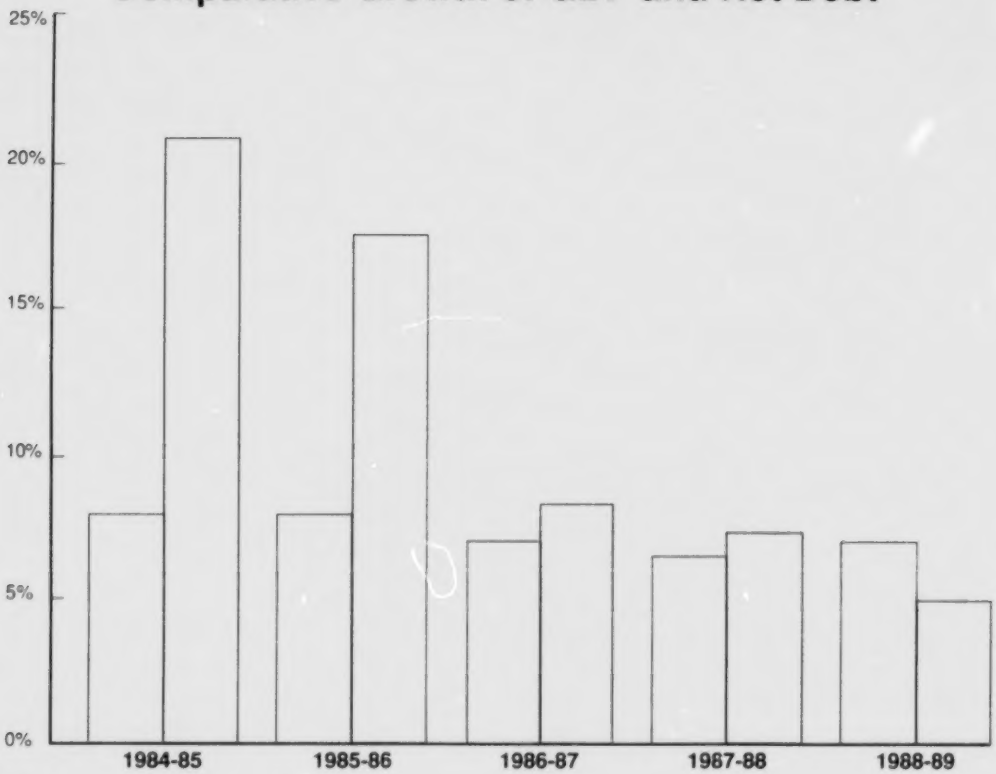
Source: Population — Statistics Canada

One of the measures used to evaluate the net debt of a government is a comparison of the rate of growth of the net debt to the rate of growth of the economy. The Gross Domestic Product, which represents the value of all goods and services produced in the Province in the year, is used by economists to measure growth in the economy.

Exhibit II compares the percentage change in the Province's Gross Domestic Product to the percentage change in the net debt over the past five years. The graph shows that during the past year the Province's economic growth has exceeded the rate of growth of the net debt.

Exhibit II

Comparative Growth of GDP and Net Debt



Sources: *Gross Domestic Product —*
1984 to 1988 Statistics Canada
1989 The Conference Board of Canada
Forecast of Key Economic Indicators

Operating Deficit

The second measure of financial performance is the operating deficit or surplus for the year. The Statement of Current Revenue and Expenditure in the Public Accounts shows this amount as "Excess of Current Operating Expenditure over Revenue and Recoveries". It is the excess of the total current expenditures for all government departments, including grants and assistance and debt service costs, over the total operating revenues for the year.

The operating deficit for the year ended March 31, 1989 was $61 million, a decrease of $54 million or 47% from the 1988 operating deficit.

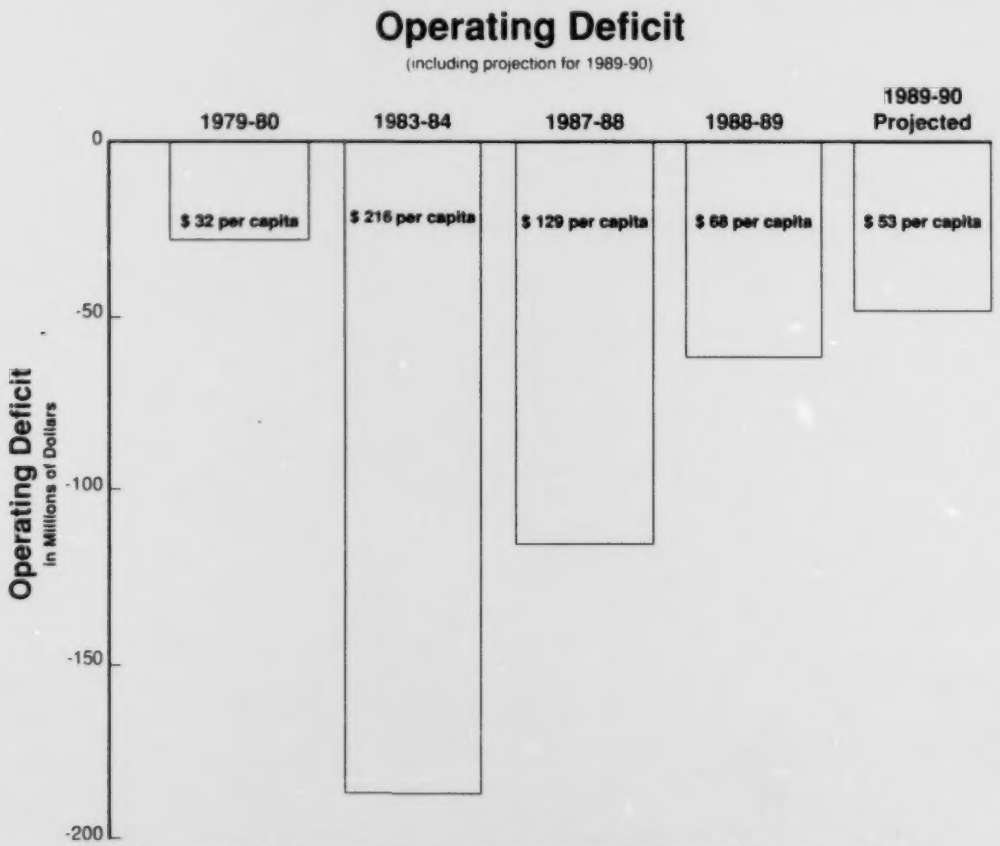
In 1987 the Government of the Province announced a three-year fiscal plan for deficit reduction. At that time, a target of $150 million was set for the 1988-89 operating deficit. In April 1988 that target was revised to $117.9 million. The actual deficit of $61 million shows an improvement of $56.8 million or 48% over the target set at the beginning of the year.

The Government announced an operating deficit target of $48.4 million for 1989-90. In 1990-91 and 1991-92, the target is for a balanced operating budget.

The Minister of Finance, in his Budget Address of May 5, 1989, stated that *"... Over the next few years our plan is to move towards borrowing for capital requirements alone. We also intend to reduce those requirements below their current levels."* Because ongoing operating deficits have been the major factor contributing to the net debt of the Province, the Government's goal of eliminating the operating deficit over the next two years is commendable.

Exhibit III shows the operating deficit of the Province for selected years over the past ten years, as well as the Government's projected operating deficit for the 1989-90 fiscal year. As mentioned previously, a balanced budget is the target for 1990-91 and 1991-92.

Exhibit III



NOTE: *Operating Deficit excludes capital expenditures, sinking fund installments and serial retirements.*

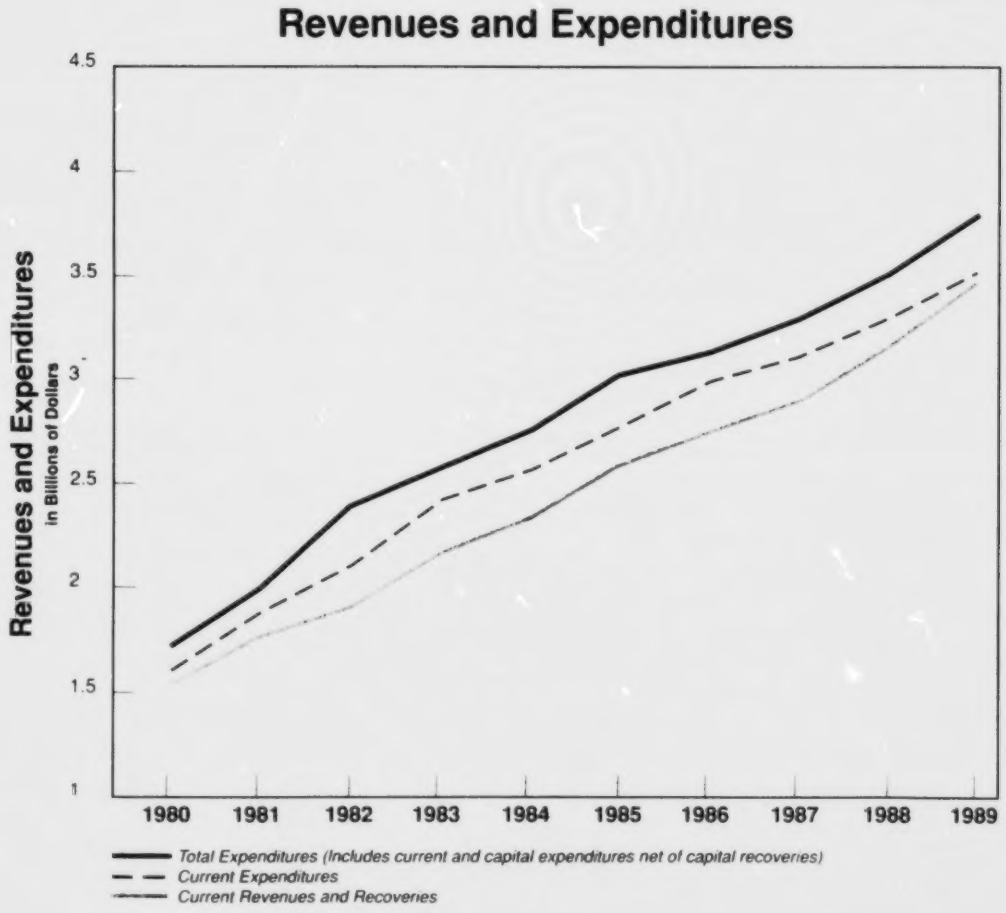
Sources: *1989-90 projection — Budget Address to the Nova Scotia House of Assembly Given by the Honourable Greg Kerr, Minister of Finance on May 5, 1989*
Population — Statistics Canada

The Province also incurred capital expenditures during the year. These include expenditures for highways, construction and expansion of government buildings, equipment, and grants for buildings and equipment for hospitals and other institutions. Capital expenditures are not included in the calculation of the current year's operating deficit, but they do increase the net debt. During the fiscal year ended March 31, 1989, capital expenditures of the Province were $301 million, a 35% increase over the 1988 figure.

Exhibit IV presents the total current revenues and recoveries, the current expenditures and the total expenditures of the Province over the past ten years. This graph demonstrates that revenues grew faster than expenditures during the past year.

The net debt of the Province will continue to rise until current revenues and recoveries exceed total expenditures. The Government's stated objective of borrowing only for capital requirements, if achieved, will result in the elimination of the operating deficit but not in a reduction of the net debt.

Exhibit IV

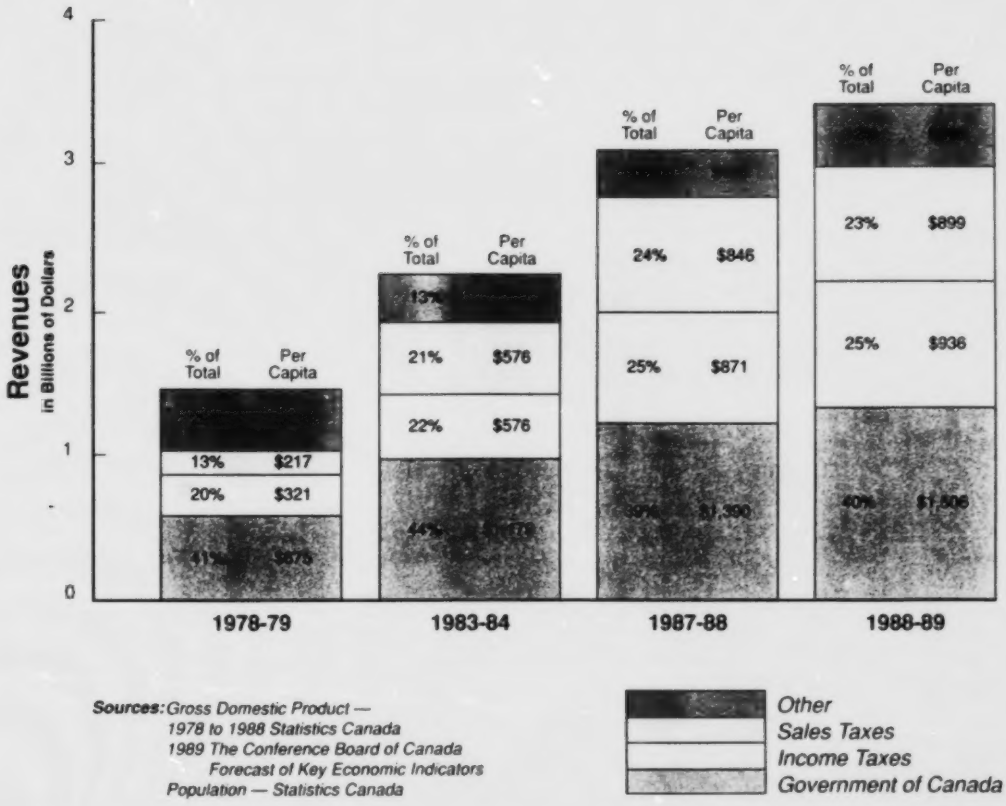


Revenues and Expenditures

To gain a better understanding of operating results it is useful to examine the trend of significant revenue and expenditure amounts. Exhibit V shows the revenues of the Province by major category for the current year, the previous year, five years ago, and ten years ago; while Exhibit VI shows total expenditures (current and capital) over the same period. Both graphs include the per capita amounts.

Exhibit V

Revenues by Major Category



Sources: *Gross Domestic Product —*
1978 to 1988 Statistics Canada
1989 The Conference Board of Canada
Forecast of Key Economic Indicators
Population — Statistics Canada

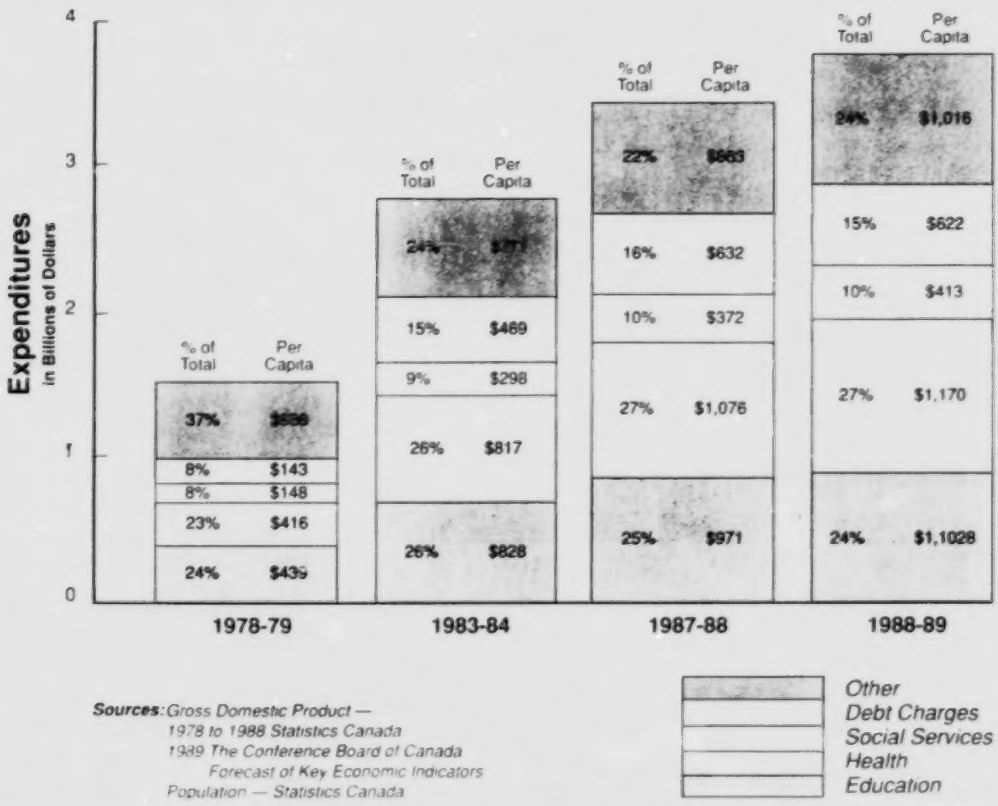
During the 1989 fiscal year, revenue increased by 8% over 1987-88 while operating expenditures increased by 7%. The increase in revenue was primarily attributable to an increase in the equalization payments received from the Federal Government, income taxes and sales taxes.

In addition to the 8% increase in revenue during the year, there was also a prior years' adjustment of $54 million on Federal-Provincial Fiscal Arrangements which was not included in the Estimates of the Province. This amount is the principal factor contributing to the significant improvement in the operating deficit of the Province between 1988 and 1989.

The effect of the increasing net debt of the province on debt servicing costs and total expenditures is apparent on Exhibit VI. Although debt service costs remained at approximately the same level in 1988-89 as in the previous year, the 1988-89 figure represents more than four times the debt service charges of ten years ago.

Exhibit VI

Expenditures by Major Category



Sources: *Gross Domestic Product —*
1978 to 1988 Statistics Canada
1989 The Conference Board of Canada
Forecast of Key Economic Indicators
Population — Statistics Canada

When debt service charges represent such a significant percentage of total revenue (currently 16%), the amount of revenue available for other government services and programs is obviously affected. The Government acknowledged the importance of reducing debt service costs in its May 1989 Budget Address which stated "*. . . It is only when governments are able to stop the growth in the total debt that they*

can effectively begin to reduce the substantial costs associated with servicing that debt. Every dollar applied to debt servicing is one less dollar available for the delivery of public programs and services. . . ."

Health care expenditures of $1.05 billion were the largest single expenditure incurred by the Province during 1988-89. They accounted for 27% of total expenditures and represented an increase over 1987-88 of $90 million or 9%.

In 1987, the Minister of Finance announced the establishment of a Royal Commission to assess the costs of providing present health care services, and to recommend measures which might be taken to achieve greater efficiency in delivery of health care services. The Report of the Nova Scotia Royal Commission on Health Care was released in December 1989. Our comments on this Report commence on page 34.

Comparison of Actual Results to Estimates

A fourth measure of fiscal performance is the comparison of the year's actual results to the Estimates for operating revenues and expenditures. This analysis shows how well the Government has followed the fiscal plan submitted to and approved by the Legislature.

For the year ended March 31, 1989, the total revenues and recoveries of $3,412 million were .7% ($25 million) above the estimated figure of $3,387 million. The only amounts which varied from the Estimates by more than 5% were Liquor Commission revenues (9% or $8 million below the estimate) and interest revenue (9% or $7 million above the estimate).

Actual operating expenditures of $3,527 million were .6% ($22 million) above the estimated figure of $3,505 million. The only expenditures which exceeded the approved estimates by more than 5% were General Government (excess of 17% or $16 million). Debt charges were less than the estimated figure by $36 million or 6%.

Actual capital expenditures exceeded the approved estimate by $34 million or 13%. The majority of this difference ($19.8 million) was attributable to the capitalization of the payments under the lease/purchase agreement for the Joseph Howe Building which had not been included in the Estimates.

The "Additional Appropriations" article on page 49 provides further details on the comparison of actual results with the approved Estimates.

For operating revenues and expenditures, the Government followed the fiscal plan approved by the Legislature very closely during the year. For capital expenditures, there was a significant excess of actual expenditures. The large prior years' adjustment in Federal-Provincial Fiscal Arrangements ($54 million) was the principal factor contributing to the difference between the estimated and actual operating deficits for the year.

Impact of Debt

We have commented on the magnitude of the Province's debt in previous Annual Reports. However, the issue of government debt is so important that it warrants further commentary in this Report.

During the past several years the impact of government debt has been discussed widely by the media, economists, auditors and others. The Provincial Auditor of Ontario, in his 1989 Annual Report, concisely summarized current thoughts on government deficits as follows:

"There are two schools of thought regarding the advisability of governments accumulating deficits. Those opposed argue:

- *Deficits encourage inflation and higher interest rates. The large sums borrowed to finance deficits tend in themselves to put upward pressure on both interest rates and inflation.*

- *Deficits make governments vulnerable in times of recession. Continuing deficits, along with rising debt levels and expenditure growth, increase government exposure to financial risks in the event of an economic slowdown.*

- *Deficits mean mortgaging our future. Through increasing debt obligations, deficits sentence governments and taxpayers to an indefinite future of tax increases and/or service cuts.*

- *Excessive debt drains government resources, preventing the development of new initiatives. An increasing percentage of government expenditure is devoted to interest charges on borrowings.*

While deficit accumulation has its detractors, there are others who maintain:

- *There is no statistical evidence to link government borrowing and deficits with inflation or higher interest rates.*

- *Deficits are a tool for creating jobs and stimulating the economy. Without the level of government spending experienced in the 1980's, there would be a recession.*

- *Deficits, rather than mortgaging our future, are paying for future benefits. Deficits include expenditures for capital purposes, e.g. hospitals, schools, highways, etc.*

- *Deficits are largely money we owe to ourselves. Government debt, to a large extent, is money which governments are repaying to their own citizens.*

In summary, there are divergent views on the desirability of deficits and accumulated deficits. However, there is general agreement on the need for governments to carefully monitor and control any deficit situation. Governments should, for example, be concerned that the growth in the accumulated deficit does not outpace the growth in the economy."

The Province of Nova Scotia has a total debt of $5.4 billion and a net debt (after deduction of realizable assets) of $3.9 billion. For the 1989 fiscal year, the debt charges (excluding principal repayments) paid by the Province amounted to $560 million or approximately $622 for each citizen of the Province. Because of the size of the Province's debt, there must be an acknowledgement of the need for a concerted effort to contain its growth.

Concluding Remarks

Ideally, the ultimate objective should be to reduce the size of the Province's net debt. However, we acknowledge that this objective is not attainable in the short term due to commitments and expectations on the levels of services and taxes.

A more realistic short-term objective is to eliminate operating deficits and move towards borrowing for capital requirements only. As mentioned previously, the Government has undertaken a fiscal plan which should lead to elimination of the operating deficit by 1990-91. For the past three years the Government has managed to achieve more favourable operating results than planned. During the 1989 fiscal year, the Government succeeded in slowing the rate of growth in the net debt to less than the rate of economic growth of the Province.

The next objective should be to reduce the borrowing requirements for capital expenditures by attempting to have current revenues cover at least some of the costs of capital expenditures. The amount of the net debt will continue to grow as long as there is borrowing to finance capital expenditures.

The Government, in its Budget Address of May 5, 1989, acknowledges the desire to reduce the borrowing requirements for capital expenditures below their current levels. To date a fiscal plan to accomplish this objective has not been announced. We believe that there is a need for the Government to adopt a multi-year fiscal plan, like the one which was developed for elimination of the operating deficit, to deal with the financing of capital expenditures and to achieve a stabilization and eventual reduction of the Province's debt.

Our analysis of the Province's financial position and operating results indicates that progress has been made in improving operating results. However, recent problems in the fishery and predictions of slower economic growth for the Province in the near term indicate that the challenges facing the Government in its deficit reduction efforts are increasing. We cannot overemphasize the need for the Government to maintain its deficit reduction efforts and develop a plan for reduction of borrowing for capital expenditures.

Additional Appropriations

Every year the Estimates representing the Government's spending plans are approved by the Legislature. The Estimates are summarized in the Appropriations Act, which authorizes spending amounts by program for the coming year. The Provincial Finance Act allows adjustments to these spending plans in the form of additional appropriations, which must be authorized by the Governor in Council. Additional appropriations are not scrutinized or approved by the Legislature. Consequently, Government is responsible for ensuring that its original spending plans are as realistic as possible.

The Appropriations Act, 1988 contains 118 votes for current expenditures totalling $3,505 million. Fifty of these votes required additional appropriations amounting to $87.6 million. Nineteen of the 25 government departments required additional appropriations. Additional appropriations totalling $16.8 million were authorized for ten capital expenditure votes. Twelve votes required two additional appropriations.

The total additional appropriations approved for the 1988-89 fiscal year is the second highest over the last seven years, as shown by the listing below.

Additional Appropriations ($ Million)

Year	Current	Capital	Total
1988-89	87.6	16.8	104.4
1987-88	50.4	8.4	58.8
1986-87	38.2	4.9	43.1
1985-86	113.6	2.2	115.8
1984-85	70.6	.2	70.8
1983-84	35.1	27.7	62.8
1982-83	84.2	5.9	90.1

Overexpenditures in the Departments of Health and Fitness, Government Services, Transportation and Communications, Agriculture and Marketing, and the Nova Scotia Research Foundation Corporation accounted for 58% of the additional appropriations.

In our 1988 Annual Report we noted expenditures for Health Programs exceeded the estimates by $10.8 million. An additional appropriation of $11.8 million for Health Programs was approved for the 1988-89 fiscal year. The major areas of overexpenditure were:

— $5.4 million for actual costs of the Victoria General Hospital, which exceeded its approved budget;

— additional payments of $2.5 million under the Ambulance Subsidy Program;

— discretionary grants of $2.0 million;

— payments to other hospitals of $1.8 milion; and

— payments of $1.2 million more than the budget for out-of-province claims.

These were offset by $1.1 million in savings in other areas.

Additional appropriations of $9.3 and $3.5 million for the 1987-88 and 1988-89 fiscal years respectively were approved for the Health Services and Insurance Commission because the utilization of services was greater than projected.

An additional appropriation of $12.8 million was approved for the Department of Government Services Public Works and Special Projects capital vote. This amount was largely attributable to the capitalization of the lease payments for the Joseph Howe Building according to the accounting disclosure requirements for capital leases of the Canadian Institute of Chartered Accountants. The amount was not included in the Estimates of the Province. The $19.8 million related to the Joseph Howe Building was netted against underexpenditures for Public Works and Special Projects in other departments to arrive at the $12.8 million additional appropriation.

It should be recognized that the $19.8 million capitalized for the Joseph Howe Building represents the present value of the total lease payments to be made over 25

years. It is merely an accounting entry and does not affect the Province's cash outflow at the date of the additional appropriation.

In 1986, 1987 and 1988 our Annual Reports noted the excess of expenditures in the Department of Transportation and Communications for Snow Removal and Ice Control over the Estimates. Again in 1988-89, additional appropriations were required for the Administration and Maintenance — Transportation Systems vote in the amount of $5.4 million. This amount represented an overexpenditure of $4.7 million in Snow Removal and Ice Control, and $.7 million in other areas within the vote.

The Department of Agriculture and Marketing required an additional appropriation of $7.2 million for additional funds for the Pork Price Stabilization Program due to low pork prices.

An additional appropriation of $10 million was approved for the Nova Scotia Research Foundation Corporation because funding for the Nova Scotia First Program was not included in the Estimates.

Again this year I draw attention to the delay in approving additional appropriations. In 59 of the 71 instances where additional appropriations were required, the overexpenditure occurred before the date that the additional appropriation was authorized. These 59 additional appropriations totalled $89.1 million and the interval between the time of the overexpenditure and approval of the additional appropriation averaged 123 days (with a range of 18 to 363 days).

Twenty-eight of these additional appropriations totalling $33.5 million were approved in the months of July through September — over three months after the end of the fiscal year.

The following schedule provides further information on additional appropriations approved for the March 31, 1989 fiscal year. It lists those for $50 thousand or greater, totalling $104.0 million or 99 1/2% of the amount approved for the year. In addition to showing the approval date, this schedule also reflects the actual amount spent.

Appropriations Greater Than $50,000
For the Fiscal Year Ended March 31, 1989

Department	Date Approved	Authorized	Expended
Advanced Education and Job Training			
Assistance to Universities	Apr.18/89	$3,140,300	$3,140,300
Agriculture and Marketing			
Agricultural Services	Sept.19/89	7,168,153	7,168,153
Agricultural Production	Sept.19/89	196,115	196,115
Boards and Commissions	Sept.19/89	98,742	98,742
Nova Scotia Agricultural College	Sept.19/89	113,869	113,869
Attorney General			
General Administration	Jan. 17/89	170,000	170,000
Law Administration	Mar. 14/89	497,300	196,114
General Administration	Sept.28/89	158,976	158,976

Department	Date Approved	Authorized	Expended
Community Services			
Administration	June 20/89	215,100	215,100
Public Assistance	June 20/89	6,513,100	6,072,818
Administration	Sept. 6/89	694,000	693,636
Education			
Grants and Assistance	Sept. 6/89	2,339,200	2,339,147
Environment			
Environmental Response Projects	May 2/89	644,200	644,200
Finance			
Government Contributions to Benefit Plans	Feb. 7/89	2,050,000	2,050,000
Homeowners' Incentive Act Grants	Feb.21/89	260,000	260,000
Unclassified and Unforeseen	Mar.30/89	250,000	244,080
Government Contributions to Benefit Plans	Sept.28/89	323,544	323,544
Fisheries			
Fisheries Development Fund and School of Fisheries	Apr. 18/89	222,000	222,000
Fisheries Development Fund	Sept.28/89	94,336	94,336
Government Services			
Public Works and Special Projects (capital)	Mar.30/89	12,804,500	11,395,467
Health and Fitness			
Health Programs	Apr.18/89	11,806,800	11,673,860
Health Services and Insurance Commission	July 18/89	9,275,000	9,273,054
Housing			
Subsidies	May 2/89	966,100	966,100
Subsidies	Sept.28/89	118,426	118,426
Industry, Trade and Technology			
General Administration	Apr.18/89	600,000	—
Lands and Forests			
Furniture and Equipment (capital)	Apr.18/89	183,000	168,313
Other (capital)	Apr.18/89	1,894,900	1,549,999
Mines and Energy			
Assistance — Mining Industry	Apr.18/89	72,000	54,250
Energy Assistance	Apr.18/89	653,000	611,718
Municipal Affairs			
Finance and Advisory Services	Jan.17/89	1,100,000	1,058,245
General	May 2/89	75,000	39,587
Public Service			
Election Expenses	July 30/88	1,000,000	1,000,000
Election Expenses	Nov.22/88	4,000,000	3,614,789
Sydney Steel Corporation	Jan.10/89	187,000	181,526
Nova Scotia Research Foundation Corporation	Mar.30/89	10,000,000	10,000,000
Nova Scotia Commission on AIDS	Apr.18/89	76,000	75,914

Nova Scotia Communication Services	Apr.18/89	93,600	93,600
Nova Scotia Sport and Recreation Commission	Apr.18/89	800,000	555,274
Workers' Compensation Board	Aug. 8/89	709,353	709,353
Commission of Inquiry Concerning Donald Marshall, Jr.	Sept.6/89	500,643	500,643
Ministers' Salaries and Expenses	Sept.6/89	72,442	72,442
Protocol Office	Sept.6/89	133,114	133,114
Royal Commission on Health Care	Sept.6/89	390,800	390,800
Nova Scotia Communication Services	Sept.28/89	147,298	147,298
Capital Grants (capital)	Jan.10/89	962,500	962,500
Small Business Development			
Small Business Programs	July 18/89	405,000	404,194
Nova Scotia Business Capital Corporation	Sept.28/89	5,221,310	4,821,309
Other Agencies	Sept.28/89	583,392	583,392
Solicitor General			
Policing Services	Apr.18/89	2,000,000	1,875,691
Tourism and Culture			
Departmental Operations	Apr.18/89	3,374,000	3,334,801
Hotel Operations	Sept.19/89	195,600	195,551
Transportation and Communications			
Registry of Motor Vehicles	Apr.18/89	2,145,700	1,145,967
Administration and Maintenance — Transportation Systems	Apr.18/89	1,317,200	1,317,200
Administration and Maintenance — Transportation Systems	Aug.22/89	4,127,433	4,127,433
Capital Grants (capital)	Apr.18/89	544,308	—
Other (capital)	Aug.22/89	310,576	310,576
		$103,994,930	$97,863,516

I am required under Section 8 (1)(f) of the Auditor General Act to call attention in my Annual Report to every case in which *"a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money"*.

No special warrants were issued during the 1988-89 fiscal year.

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CROWN AGENCIES AND CORPORATIONS

Introduction

There are 18 crown agencies and corporations, excluding hospitals, whose annual audits are performed by chartered accountants other than the Auditor General. A schedule of these is included in Appendix IV.

Under Section 16 of the Auditor General Act we are furnished annually with the audited financial statements and all audit reports prepared by the auditors of these agencies and corporations. The Auditor General may conduct any such additional examination or investigation of the records and operations of the agencies as he deems necessary.

Examinations or investigations which our Office performs under Section 16 have different objectives and hence a different scope of review than those undertaken by the private sector auditors. We do not attempt to duplicate their work regarding an audit opinion on the entity's annual financial statements. The focus of our review is on broader issues such as the management and organization of the enterprise, and the manner in which it is meeting its legislated or otherwise determined objectives. The results of these reviews are reported to the management and Boards of the corporations and agencies, and an abbreviated report is included each year in our Annual Report.

In 1985 a five-year schedule was prepared to ensure at least one audit review by our Office in each of those crown agencies and corporations where we are not the appointed auditors. Certain of the larger ones are scheduled for a more frequent review.

All but three of the smaller ones have been reviewed since 1985 and reported on in our Annual Reports. These are: Nova Scotia Rehabilitation Centre Corporation; Nova Scotia Resources Limited; and Tidal Power Corporation. It is our plan to conduct audits of these entities during the 1990 audit year. Three others, Art Gallery of Nova Scotia, the Schooner Bluenose Foundation, and the Upper Clements Family Theme Park Limited became operational after our 1985 schedule was prepared, and will be subject to review within the next two years or so.

During the 1989 audit year, staff conducted in-depth reviews at Check Inns Limited, the Halifax-Dartmouth Bridge Commission, and the Victoria General Hospital Foundation (an organization with legislation which provides for Auditor General review, at his discretion). A special review was conducted at the Nova Scotia Liquor Commission, concerning the acquisition of the head office and distribution centre complex located at Bayers Lake Industrial Park, Halifax.

Articles on each of these assignments are included in this section, as well as an article on our review of the audit reports prepared by the financial statement auditors of all these crown agencies and corporations.

Review of Auditors' Reports

Section 16 of the Auditor General Act requires auditors of all crown agencies to provide this Office annually with copies of the audited financial statements and all

reports prepared pertaining to these audits. We reviewed all financial statements and reports received. We were principally interested in whether:

- there was any indication of inadequate financial controls and records mentioned in letters to management or indicated by reservations of audit opinion on the financial statements;
- there was timely preparation of annual financial statements, and the audits of them;
- there were notes to the financial statements outlining the legislative mandate of the entity; and
- there was disclosure of the entity's audited financial statements, preferably in the Public Accounts.

The following observations result from our examination of the financial statements and auditors' reports.

Financial Controls and Records — A reservation of opinion was expressed in the Auditors' Report on the financial statements for the Art Gallery of Nova Scotia, which read:

> *"In common with many charitable organizations, the Gallery derives revenues from donated receipts, the completeness of which is not susceptible of conclusive audit verification. Accordingly, we were unable to determine whether any adjustments for unrecorded revenues might be necessary to donation revenue, net loss for the year and deficit."*

A similar reservation of opinion was expressed for Schooner Bluenose Foundation. These are a standard type of reservation which may be found in the auditors' report for organizations receiving a significant portion of their revenues through cash donations. They do not reflect weaknesses that can be overcome cost effectively.

The letter to management of the Workers' Compensation Board of Nova Scotia from their external auditor indicated some concern over the actuarial assumptions used to value the Board's unfunded pension liability. The Annual Report states *"The Consumer Price Indexing Reserve as at December 31, 1988 was determined to be inadequate to provide for the escalation of pension payments as a result of indexing by an amount of approximately $72,700,000. . . ."* The auditors point out in their letter to management that *"The liabilities for the basic pension fund have been capitalized in the actuarial report at 8%. . . . In the same report, the liability for the consumer price indexing has been capitalized at a rate of 10%. . . ."* The auditors further state that *"Had the capitalization of the consumer price indexing fund liability been determined at 8%, as was used for the basic pension fund, the liability would be much higher."*

The Auditors' Report on the financial statements for the Sherbrooke Village Restoration Commission, which contained a reservation of opinion for March 31, 1988, was unqualified for March 31, 1989. While we did not conduct a review at the Commission during the 1989 audit year, the unqualified opinion would suggest that previously reported internal control weaknesses have been rectified.

Letters to management of other crown agencies from their auditors indicated some weaknesses, not serious enough to include in this Report.

Timeliness of Statement Preparation — Financial statements were generally prepared and audited within six months of year-end which we consider to be satisfactory. One exception is Upper Clements Family Theme Park Limited. It was incorporated January 22, 1988 and became operational in June 1989. Financial statements for the year ended March 31, 1989 were being audited in December 1989, but were not completed in time for inclusion in the Public Accounts for the year.

Legislative Mandate — It is important for the reader of financial statements to have some awareness of the legislative mandate under which the entity operates. This is most conveniently displayed as a note to the financial statements but can be shown in other locations of an annual report. It is recommended that all crown corporations and agencies include such a note if they have not disclosed their legislative mandate elsewhere in their annual report.

Although there has been an improvement over the past few years, the financial statements of four entities do not have such a note. They are: Halifax-Dartmouth Bridge Commission, Nova Scotia Rehabilitation Centre Corporation, Schooner Bluenose Foundation, and Workers' Compensation Board.

Reporting — I have noted in previous Annual Reports that the Public Accounts of Nova Scotia should come as close as possible to presenting full disclosure of the financial position and operating results of all entities which are Government controlled.

The financial statements of three entities, although not in the Public Accounts, are tabled in the Legislature and available to the public. These are the Council of Maritime Premiers, a joint operation with the other Maritime Provinces; the Halifax-Dartmouth Bridge Commission; and the Workers' Compensation Board. The financial statements for the Atlantic Provinces Special Education Authority, which is jointly funded by the four Atlantic Provinces, are neither included in the Public Accounts nor tabled in the Legislature.

Concluding Remarks

Improvements have been noted in the accounting and reporting of crown corporations and agencies over recent years. In order to maintain this trend, I reiterate my suggestion of prior years for legislation that would provide for accountability of crown corporations to the Legislative Assembly.

This legislation would help to achieve uniformity in disclosure and improve the understanding of authority and responsibility allocated to Board members of these corporations. The legislation should also define what constitutes an agency or corporation of the crown. At present there are several definitions for crown agencies and corporations. For example, the Provincial Finance Act and Auditor General Act contain somewhat different definitions. This situation has created some problems in determining the status of certain entities. The definition in all legislation should be consistent.

Check Inns Limited

Summary

Background — Check Inns was established under the Nova Scotia Companies Act and is responsible for the maintenance of a reservation and information system for the benefit of hotels, motels, and other accommodation throughout the Province.

During 1989 we completed a review of the operations of Check Inns Limited. This was our first review of the Corporation since it was established in 1978.

Objectives — The objectives of the assignment were to obtain current information on the Corporation's organization structure, operating policies and procedures, and financial results and to review its operations from a managerial perspective to assess how well the responsibilities are being performed.

Findings and Conclusions — We concluded that the Corporation is providing a valuable service to the tourism industry and has become a major information source for the Department of Tourism and Culture.

Some improvements in management practices should be considered including the preparation of cost-benefit analyses when deciding on operational alternatives; projection of financial position and operating results for a five-year period; development of program costing mechanisms to provide an improved accountability relationship with the Department of Tourism and Culture; and preparation of an annual report for the benefit of the tourism industry and the Legislature.

Introduction

During 1989, this Office completed a review of the operations of Check Inns Limited under section 16 (2) of the Auditor General Act. This was our first review of the operations of the Corporation since it was established in 1978.

The objectives of the assignment were to obtain current information on the Corporation's organizational structure, its operating policies and procedures, and its financial results; and to review its operations from a managerial perspective to assess how well the responsibilities relating to these positions are being performed.

The Corporation was established under the Nova Scotia Companies Act and is responsible for the development and employment of technology for the purpose of maintaining a reservation and information system for the benefit of hotels, motels, and other accommodation throughout the Province of Nova Scotia.

The primary revenue source for Check Inns Limited is an annual operating grant from the Province of Nova Scotia. For the fiscal year ending March 31, 1989 the grant was $735,500 for approximately 75% of total revenue. Revenue from the accommodation industry for reservations made on their behalf accounts for the remaining 25%.

The Corporation has received a strong response to its toll-free reservation and information system, now representing over 98% of the total available rooms in the Province. Two toll-free telephone systems spanning continental North America provide access to the Check Inn service.

Results of Audit

We obtained a reasonable understanding of the Corporation's organizational structure, operating policies and procedures, and financial results. The following summary observations and conclusions were derived from the assignment.

- We concluded that the Corporation's decision, in the early 1980's, to develop their own computer reservation system was a cost advantageous decision, and provided more flexibility for information processing. Previously, on a preliminary basis, they had used an adaptation of the Air Canada reservation system.

- The Corporation is seeking alternative revenue sources and has been considering several. We noted no evidence of cost-benefit analyses for the alternatives, and suggested forecast revenues and expenditures for each alternative should be considered before making any firm decisions.

- The Corporation had consultants examine its financial affairs and develop projected financial statements for a five-year period. The Corporation was in the third year of this five-year period and we suggested they should be updating projections annually to reflect actual results and also extending the projection to maintain the five-year framework.

- We noted that an annual report, as called for by legislation, was not being prepared. Such a report could be beneficial to Check Inns Limited and the industry. Much of the information that would normally be included is regularly gathered and maintained by the Corporation.

- The primary revenue source, which accounts for approximately 75% of total revenues, is a grant from the Province of Nova Scotia. This grant is intended to cover the services rendered by the Corporation to government and the industry, but is not assured through the existence of a formal agreement or funding formula.

  The Corporation is required to provide additional services at increasing cost, but with proportional increases in the provincial grant to cover these costs not always being recovered.

  Moreover, the Corporation has not determined costs for its various program activities. We have recommended that a cost based funding agreement be established for a proper accountability relationship with the Department of Tourism and Culture, and for effective long-term planning by the Corporation.

Conclusion

We concluded that the Corporation was providing a valuable service to the tourism industry and has become a major information source for the Department of Tourism and Culture.

Some improvements in management practices should be considered, particularly relating to cost-benefit analyses when deciding on operational alternatives; projection of financial requirements and preparation of a five-year financial framework for comparison; development of program costing mechanisms to provide an improved accountability relationship with the Department of Tourism and Culture; and preparation of an annual report for the benefit of the tourism industry and the Legislature.

Halifax-Dartmouth Bridge Commission

Summary

Objectives — The objectives of our review were:

- to obtain an understanding of the Commission's goals, objectives, policies and plans; and
- to examine practices in key operating areas including financial management, debt administration, major construction and maintenance projects, and involvement with the Board of Commissioners of Public Utilities.

Findings and Conclusions — The principal findings and conclusions from our examination were:

- The Commission had no formal policy for ongoing monitoring and consultation regarding its long-term debt.
- Retiring the principal portion of its debt should be a major priority for the Commission, and a program for debt retirement should be part of the Commission's strategic plan.
- There should be a policy requiring more formal and complete analysis of options considered when refinancing decisions take place.

Introduction

In mid-1989, prior to the rate increase hearings before the Board of Commissioners of Public Utilities, this Office conducted an examination of the Halifax-Dartmouth Bridge Commission. Although the Auditor General is not the appointed auditor of the Commission, we are authorized under Section 16 (2) of the Auditor General Act to conduct such additional examination and investigation of the records and operations as we deem necessary. This was our first review of the operations of the Commission since its establishment in 1950.

The objectives of our review were to obtain an understanding of the Commission's goals, objectives, policies, and plans; and also to review practices in key operating areas, including financial management, debt administration, major construction and maintenance projects, and involvement with the Board of Commissioners of Public Utilities.

The Commission was incorporated under a Statute of the Province of Nova Scotia in 1950. Its purposes are to construct, maintain, and operate bridges, and the necessary approaches, across Halifax Harbour. The Commission consists of five representatives from the Province of Nova Scotia, including the Chairman and Secretary, two representatives from the City of Halifax, and one member each from the City of Dartmouth and the Municipality of the County of Halifax, for a total of nine members.

The Commission in its 1988 fiscal year had annual revenues in excess of $8.6 million. At December 31, 1988, its asset base was approximately $46 million, and there was an accumulated general deficit of over $52 million.

Our review comprised an examination of the Commission's audited financial statements, annual reports, minutes, legislation, by-laws and regulations, operating policies, systems and procedures, accounting and disclosure policies and practices, financial and operational objectives and plans, and long-term debt financing policies and procedures. We also had extensive interviews with senior officials of the Commission, its external auditors and external financial consultants.

The areas we reviewed are classified under the following captions.

Planning and Policies
Operations and Accounting
Financial Statement Presentation
Long-term Debt Financing

Planning and Policies

In our review of this area, we determined that there is an adequate committee structure within the Commission with clearly defined and documented responsibilities. The committees meet regularly, include senior management of the Commission, and are extensively involved in the financial and operating management processes.

Although the Commission does not have a formal strategic plan for its operations, it has enunciated certain plans regarding debt retirement, bridge maintenance, new construction and toll rates in its appearance before the Board of Commissioners of Public Utilities in September 1989. An organization of the magnitude of the Commission, should have more formalized short and long-range plans for key aspects of its operation. Accordingly, we have recommended that a formal strategic plan be prepared and periodically modified to reflect contemporary conditions.

Operations and Accounting

Our objective in this area was to determine whether the Commission had adequate policies and procedures which were properly documented for its various

financial and operating management systems. Our overall conclusion was that there were reasonable procedures and systems for administration of the Commission's operations. We did have recommendations for improvement in some areas such as:

— the introduction of an operations manual for the documentation of financial and operating management systems;

— more extensive analysis of and explanations for significant variances on monthly operating comparisons of actual to budget;

— updating of contractual arrangements with the Canadian Corps of Commissionaires, and the Commission's consulting engineer;

— the introduction of separate cost centres to reflect the operations of each of the bridges, and to provide better management information for control purposes; and

— the documentation of cash management policies and procedures.

Financial Statement Presentation

Our analysis of the financial statement presentation of the Commission's financial position and its operating results, led to the recommendation of two changes in disclosure presentation, and consideration of two other matters. These may be described briefly as follows.

- We recommend the cost of the approach roads to the MacKay Bridge be removed from the accounts of the Halifax-Dartmouth Bridge Commission, in that the Commission has no legal title to these assets.

- We recommend that the debt retirement fund be disclosed in the financial statements as a long-term asset, because it is being held to relieve long-term debt and is not available to reduce current liabilities.

- Section 18 of the Halifax-Dartmouth Bridge Commission Act provides the Minister of Finance authority to *"advance to the Commission such amounts as the Minister may from time to time consider necessary"*.

  The Province has been reimbursing the Commission for any annual operating deficit it may incur. Amortization of unrealized gains or losses on foreign currency translation has been excluded from the reimbursement.

  Deficits for one year are not offset by profits of another. In total from 1978 to 1988, over $11 miliion has been reimbursed by the Province of Nova Scotia. However, the excess of losses over profits for these same years amounts to only $8 million.

  It does not appear that the Commission is attempting in any way to manipulate losses in order to obtain more funds from the Province in its deficit years. However, it is our view that the Province should not fund deficits without some return of contributions in profitable years. Accordingly, we have recommended that consideration be given to a policy whereby

deficits funded by the Province be repaid in years when the Commission has a profit.

- Depreciation is charged in the accounts of the Commission on an annual basis for buildings and equipment. However, no depreciation has been taken on the bridge superstructure and substructure since 1965, and none has ever been taken on the approach roads to the MacDonald Bridge. It should be noted that the majority of toll bridges in North America, which operate in a manner similar to the Halifax-Dartmouth Bridge Commission, do not depreciate their superstructure and substructures.

  To December 31, 1988, the costs of the two bridges on the Commission's balance sheet have changed little since they were built, because there have been few major expenditures capitalized. Commencing in 1989, there will be major repairs and renovations to the bridges which, if capitalized, will add significantly to the cost of them. The capitalization of these costs will result in the carrying cost of the bridges increasing substantially without there necessarily being an equivalent increase in value or useful life.

  Accordingly, we have recommended that a policy should be adopted to amortize at least a portion of the original cost, and/or major renovations over the life of the bridges. To do so relates the total cost of bridge operation and construction more closely to toll revenues and debt reduction.

Long-term Debt Financing

Aside from the matter of toll rate increases, about which it is not our responsiblity to comment, perhaps the most topical aspect of the Commission's operations over the past few decades has been its debt financing. This topic received considerable attention during the Commission's application hearings before the Board of Commissioners of Public Utilities in September 1989. During our review, we attempted to determine what took place in the financing arrangements of 1969, 1979, and 1989. We describe the circumstances concerning these three major financings by the Commission in the following paragraphs, and attach a schedule which includes key data relating to these three major capital financing arrangements.

1969 Financing — The Angus L. MacDonald Bridge was opened in 1955, at a cost in excess of $11 million. Total costs to December 31, 1988 are $12,125,477. The construction was financed by first mortgage serial bonds and debentures, both of which were guaranteed by the Province of Nova Scotia. This debt on the MacDonald Bridge was paid off, commencing in 1955 and completed by December 31, 1977. The retirement was accomplished by making payments at various intervals during this period.

In 1970 the A. Murray MacKay Bridge was opened at a cost in excess of $36 million. Total costs to December 31, 1988 are $36,760,048. About $6 million of this amount was financed by short-term borrowings. Approximately $31 million was financed by borrowing 110 million Deutschmarks in two loans of 10 million and 100 million. These were fixed-term loans due in 1973 and 1979 respectively, and were guaranteed by the Province of Nova Scotia.

In 1969 at the time this financing took place, the foreign exchange currency market was one in which currencies were "pegged" against one another. Accordingly, the financial environment was such that little change was anticipated over the terms of these loans in the value of the Deutschmark against the Canadian Dollar. Since the Commission was able to obtain a lower interest rate than was available on Canadian funds, the decision to borrow in foreign currency was considered a prudent one under the circumstances then prevailing.

1979 Financing — In the early 1970's the post-war pegging of currencies was abandoned in favor of "floating" currencies. The Deutschmark rose dramatically against the Canadian Dollar resulting in an exchange loss of $51 million, and an increase in the long-term debt to approximately $90 million by 1979. In 1973 the 10 million Deutschmark loan due, plus an $8 million Canadian loan, were converted to 40 million Swiss Francs. In 1979 the 40 million Swiss Franc loan and the 100 million Deutschmark loan were replaced with a loan of 128,987,470 Swiss Francs.

The ten-year loan negotiated in 1979 in Swiss Francs was considerably more flexible in terms of interest rates and conversion privileges to avoid large currency losses from occurring again. The interest rate negotiated was substantially lower than what would have been obtained if the loan had been financed in Canadian dollars. For the ten-year period of the loan to 1989 the Commission has estimated that a saving in excess of $60 million was achieved in interest costs over what would have been paid had the loan been financed in Canadian dollars.

It is significant to note, however, that no principal repayments were made between 1969 and 1979 and only 6,987,470 Swiss Francs were paid on the principal between 1979 and 1989. This was done in 1985 when exchange conditions were considered favourable and the Commission had some funds available.

1989 Financing — On June 30, 1989 the Halifax-Dartmouth Bridge Commission refinanced its 122 million Swiss Franc loan with an eight-year loan of 125 million Swiss Francs through the Union Bank of Switzerland. The loan is guaranteed by the Province of Nova Scotia and contains a clause which permits extension of the loan for one year, on the annual anniversary date of the loan. The interest is payable in Swiss Francs and the rate is set at the London interbank offer rate plus twenty-seven basis points. The interest term is fixed at three, six or twelve months at the option of the Commission. A payment on principal can be made at any interest payment date without penalty, in amounts of ten million Swiss Francs or greater.

The Commission's decision to refinance the loan in foreign currency was primarily because of the higher interest cost of refinancing in Canadian dollars and its inability to immediately make principal repayments on the debt.

Arrangements to refinance the 122 million Swiss Franc loan which came due on June 30, 1989 involved verbally requesting proposals from four banks, input from the Executive Director — Investment and Debt Management of the Department of Finance of the Province of Nova Scotia, and input from the banks involved. Documentation on the loan agreement from the bank selected is summarized in one report, although documentation on other alternatives and the decision process involved in the final selection is informal and not summarized in one place.

Concluding Remarks — We observed that the Commission has no formal policy for ongoing monitoring and consultation regarding its long-term debt. In view of the Commission's large debt, all in foreign currency, it would seem prudent to periodically have some type of expert review of foreign money markets so that the Commission would be aware on a timely basis of beneficial refinancing options.

The Commission has paid little on the principal portion of its long-term debt over the past twenty years. In addition, it has just added 3 million Swiss Francs ($2,125,500 Canadian) in order to pay for capital improvements to the bridges in 1989 and over the next few years. Some economists are estimating that the Swiss Franc could rise to over eighty-five cents against the Canadian dollar by 1992, in which case the Commission may have to consider refinancing an even larger debt in another currency.

Retiring the principal portion of its debt should be a major priority for the Commission in order to improve its long-term financial stability. A well-defined, long-term plan to retire the Commission's debt would seem essential because of the magnitude of it, the Province's involvement in guaranteeing it, and the desirability of toll fees contributing at least in part to an amortization of it.

From the foregoing detailed description and the attached schedule, it can be seen that the Commission has had four major long-term debt financing arrangements since its inception. Three of these involved financing in foreign currencies and span over 20 years from 1969 to 1989. The financing decisions made during this period were considered in the light of prevailing economic conditions, and the needs of the Commission at the time of each decision. Although in hindsight it may not be difficult to find fault with the decisions made in 1969 and 1979, it can also be said that these decisions were not inappropriate in terms of the then prevailing economic and financial conditions, and not contrary to then available expert financial market advice.

As a result of our review of the long-term financing arrangements made over the past 20 years, we did make three sets of recommendations regarding this matter.

- In order to more adequately support major financing and refinancing decisions, the Commission should adopt a policy of preparing a complete and formal analysis of the options considered, including the benefits and risks involved, the type and source of outside financial advice obtained, and the reasons supporting the decisions.

- The Commission should have a policy requiring periodic monitoring and consultation regarding its long-term debt, to support decisions for refinancing and debt reduction, as well as ensure a regular, planned expert consultation on world money markets and economic conditions.

- The Commission should include a well-defined plan for debt retirement in its strategic plan.

Data Relating To Major Capital Financing

1954 to 1969

Angus L. MacDonald Bridge
Land, bridge structure, approaches, building and equipment

Total cost	$12,125,477

Financed by Serial Bonds and Debentures guaranteed by the Province of Nova Scotia

Repaid from 1955 to 1977

1969 to 1979

A. Murray MacKay Bridge
Land, bridge structure, approaches, building and equipment

Total cost	$36,760,048

Financed by:

1969	Deutschmarks, fixed-term loans	
	100,000,000 due 1979	
	10,000,000 due 1973	$31,000,000
1971	Short-term borrowings	6,000,000
		$37,000,000

Refinancing:

1973	10,000,000 Deutschmarks and $8,000,000 Canadian short-term loans	
	Total Equivalent	40,000,000 Sw.Francs
1979	100,000,000 Deutschmarks and 40,000,000 Swiss Francs	
	Total Equivalent	128,987,470 Sw. Francs

Canadian Dollar Equivalent:

1969-1973 loans		
To 1971 — above	$37,000,000	
Short-term increase ($6 to $8 million)	2,000,000	$39,000,000
1979 refinancing 128,987,470 Swiss Francs		90,000,000
Increase in long-term debt due to foreign currency fluctuations from 1969 to 1979		$51,000,000

1979 to 1989

1979 loan	128,987,470 Sw.Francs
Less: 1985 repayment	6,987,470 Sw.Francs
	122,000,000 Sw.Francs
Addition to finance 1989 major repairs	3,000,000 Sw.Francs
Refinanced in 1989	125,000,000 Sw.Francs
Canadian Dollar Equivalent (at June 30, 1989 spot rate)	$88,275,000

Subsequent to our audit the Commission has:

— established a Debt Review Committee which should place greater emphasis on long-term financial alternatives;

— entered into firmer contractual arrangements with the consulting engineer, and a new contract with the Canadian Corps of Commissionaires; and

— commenced a consideration of revisions to fixed asset valuations.

Nova Scotia Liquor Commission Distribution Centre and Head Offices

Summary

In late 1986 the Commission moved into a new facility at Bayers Lake Industrial Park containing a distribution centre and new head offices. An assignment to review the circumstances surrounding the decision to move to this facility was undertaken by our Office because of the size of the financial commitment involved.

Objectives — Our objectives were to review:

— the decision process related to the acquisition of the new facility;

— the financing and costs associated with the acquisition of it; and

— the capacity utilization for the distribution centre.

Findings and Conclusions — The principal findings and conclusions were:

— The decision to acquire and the selection of a new facility involved considerable input from Commission staff, Commission management, an outside consultant, and the Commissioners.

— A lease/purchase option was chosen over an outright purchase although an outright purchase, if financed directly by the Province at 12.4%, would have cost $1.3 million less.

— The Canterbury/Corkum group proposal was selected over that of Eastport Properties Limited because it was considered superior, based on program and function, design and quality.

— The warehouse area presently contains considerable unused space, due in part to anticipated space requirements for product growth expected to occur over time.

Introduction

In 1984, under the provisions of Section 16(2) of the Auditor General Act, my Office conducted a special examination of six functional areas of the Nova Scotia Liquor Commission (NSLC). A brief article on this review was contained in my 1984 Annual Report.

In late 1986 NSLC moved into a new facility at Bayers Lake Industrial Park containing a distribution centre and new head offices. Due in part to the size of the financial commitment for this facility, and to the degree of media and other attention, including discussion before the Public Accounts Committee, an assignment to review circumstances surrounding the decision to move to this facility was undertaken during the past year.

Objectives

Our objectives for this assignment were to review:

— the decision process related to the acquisition of a new distribution centre and head office complex;

— the financing and costs associated with the complex; and

— the capacity utilization for the distribution centre.

Our examination included meetings and discussions with senior NSLC management, a review of the Commission's minutes pertaining to this topic, and a review and analysis of documentation supporting these areas.

Warehouse and Head Office

The NSLC since 1961 had occupied approximately 81,000 square feet at Young Street, of which 18,000 was head office space and 63,000 was the main warehouse.

There were inventories in four other locations. These included a warehouse in Burnside, Dartmouth; warehouse space in the Agricola Street and Strawberry Hill locations in Halifax; and storage at the Acadian/McGuinness plant in Bridgetown. The total warehouse space in these areas (excluding Bridgetown where 90 products were warehoused) was about 50,000 square feet which, when added to the main warehouse area, gave the NSLC approximately 113,000 square feet in its own

premises. In addition to the warehouse space, Licensee operations in Halifax and Dartmouth occupied approximately 34,000 square feet of space. The total space for these Licensees and warehouses was about 147,000 square feet.

In 1976, the NSLC commenced studies on consolidation of operations, expanded space, and efficiencies in warehousing techniques. This process culminated in a 1984 public call for proposals for a new distribution centre and head office complex.

Observations

Summary of Key Dates — The following are the significant dates related to the public call for proposals, their review and evaluation, the construction of the distribution complex, and the occupancy of the completed facility. It is followed by more narrative detail on the proposal justification and cost analysis, the proposal process, the selection decision, the decision to lease/purchase, space utilization, and the selection of site.

June 21, 1983 — NSLC Commissioners agreed to the need for a new complex. A summary report, with preliminary requirements, was prepared by NSLC staff and forwarded to Government for response/approval.

December 1983 — Consulting architect was hired by NSLC to provide professional assistance.

January — August 1984 — Determination of space related requirements, visits to selected warehouses and other liquor boards, and preparation and finalization of proposal call documents.

September 1984 — Stage I Proposal Call publicly advertised to solicit interest and identify interested parties. Eleven responses were received.

October 1984 — Six respondents were invited to continue to the next stage on the basis of documentation submitted in response to the Proposal Call Questionnaire.

November 1984 — Stage II. Joint meeting was held with the six to establish philosophy and to review call documentation.

November 22, 1984 — Approval was received from Government to proceed, subject to acceptable terms and costs.

January 1985 — Detailed proposals were received from five proponents.

January — March 1985 — Submission documentation was reviewed and assessed against established criteria. From the five, two were selected for additional discussion and input.

March — April 1985 — Further submissions and presentations from the two were made to staff and Commissioners, including information on site, structure, flooring, roofing, finish, and mechanical and electrical systems.

April 1985 — Recommendation was made by NSLC staff to Commissioners and subsequently to the Minister responsible for the NSLC to proceed with a distribution centre at Bayers Lake, with The Canterbury/Corkum Group.

April 18, 1985 — A letter was issued by Minister responsible for NSLC, granting approval to recommendation.

April 29, 1985 — Contract for project was awarded to The Canterbury/Corkum Group.

July 2, 1985 — Order in Council 85-725 was issued, approving NSLC purchase of land in Bayers Lake Industrial Park from the City of Halifax/the Halifax Industrial Commission.

September 1985 — Contractor commenced laying the footings for the building.

October 14, 1986 — Warehouse operations moved into complex.

December 19, 1986 — Facility completed and officially taken over by NSLC.

January 12, 1987 — Head office operations moved in.

April 1, 1987 — Halifax and Dartmouth Licensee operations moved to new complex.

Proposal Justification and Cost Analysis — As part of its 1985 submission to the Commission and subsequently to the Minister, NSLC management prepared a listing of benefits which would be provided by a new distribution centre. In this listing major areas were identified, including items such as increased productivity and efficiency in warehousing, various items related to inventories, the size and number of future stores, improved service to Licensees, space for future growth and expansion, and the availability of the Young Street property for other purposes.

An estimate of potential operating cost changes was prepared. Savings of $1,689,060 to be made by consolidating the operations, plus gains of $738,000 to be made by inventory system changes, less operating costs of $659,693 for the new facility, were compared to the annual lease cost of $1,536,446. The net result was an annual saving to the NSLC in excess of $230,000.

A project of this magnitude would normally have a post-acquisition cost analysis. This would compare actual costs for the new facility to the actual savings that had been realized. At the date we completed our audit no such analysis had been performed. Also there had been no formal follow-up of the list of potential benefits to see whether or not they had been achieved. It is our opinion that formal analyses in both of these areas should have been prepared to provide NSLC management and Commissioners with documented support for the decision to centralize its operations.

The NSLC management have agreed with us, and have expressed their intent to do this cost analysis and follow-up review in the near future. The need to have actual operating cost experience over a period of time, as well as several time-consuming projects (relating to tariff and trade matters and computerization of cash systems) have contributed to the delay.

Proposal Process — The process followed for the call for proposals, their review and evaluation, and the decision as to the most suitable one was as follows.

- The NSLC engaged an outside consulting architect to assist them in determining needs and costs, in preparing the proposal call documents, in reviewing proposals, and in preparing their recommendations to the Commissioners and to the Minister. The architect also served as consultant during construction of the complex.

- Stage I of the project was a pre-qualification stage to solicit interest and identify interested parties. A call for proposals was publicly advertised in September 1984. Eighteen sets of documents were requested. Eleven submissions received by the closing date of September 21, 1984.

- From the 11 submissions, a short list of 6 was determined.

- Stage II dealt with detailed proposals. As part of this, an initial meeting was held with representatives from the six proponents to establish philosophy for the project and to review call documentation. The six included:

  Canterbury Group Limited
  Centennial Group
  H.W. Corkum Construction Limited
  East Port Properties Limited
  Hefler Properties Limited
  L. & M. Enterprises

- Five submissions were received from this group by the closing date of January 31, 1985. The reduced number was a result of two groups combining to submit a joint proposal, under the name of The Canterbury/Corkum Group.

- A review and evaluation of these five submissions was undertaken by the consultant, in cooperation with senior management of the NSLC. Based on comparison of site, program and function, building criteria, operational costs, and financial considerations, the choice was narrowed to The Canterbury/ Corkum Group and East Port Properties Limited.

- The two groups made presentations to NSLC staff, and to NSLC Commissioners in March and April 1985. Further review and evaluation was undertaken by staff and the consultant.

Selection Decision — The Proposal Call documentation indicated that the assessment of the proposals would include:

— overall design;
— suitability of building facility;
— appropriateness of site location;
— appropriateness of parking and site utilization;
— quality of the completed project; and
— financial considerations.

The process of evaluating the five proposals involved a review and ranking based on:

— program and function;
— design;
— quality;
— energy; and
— alternative financial evaluations based on options to purchase, lease or lease/purchase.

This process resulted in the selection of The Canterbury/Corkum Group and East Port Properties Limited as the final two. These two were further reviewed against the criteria, with additional presentations and data submissions from them to put them on a more comparable basis, prior to the making of a final recommendation.

The analysis of the final five proponents' projects indicated:

- Based on price East Port Properties Limited was less expensive than The Canterbury/Corkum Group proposal by $3.7 million.
- On criteria other than price the best proposal based on function/design/quality was The Canterbury/Corkum Group. In these same areas East Port Properties Limited was ranked second overall.

The final selection was made from the proposals of The Canterbury/Corkum Group and East Port Properties Limited. The evaluation of the two included:

— identification of the differences, including shape of building, size of lot, expansion potential, refinements to basic design, warranties and materials used;

— adjustments to specifications such as colour of concrete walls, light wells, lobby flooring, space adjustments, leasehold costs, mechanical systems, structural framing and certain roofing costs, to make the two more comparable, while not affecting the overall functional design of the building; and

— comparisons of total costs if building were:
a) purchased from developer, on land purchased by developer;
b) purchased from developer, but built on NSLC land; and
c) lease/purchase arrangement, calculated two ways.

The evaluation of the final data considered outright purchase of the facility on either NSLC land or on developer land; as well as a lease/purchase arrangement. This resulted in the following:

Option	Canterbury	East Port	Difference
		(millions)	
Purchase, on developer's land	$11.3	$ 9.4	$1.9
Purchase, on NSLC land	11.3	9.4	1.9
Lease/purchase			
Discounted to present value	12.6	10.9	1.7
Simple sum of payments	39.1	39.5	.4

In July 1984, an estimate of costs prepared by the consulting architect indicated that the cost for the building, including land and site costs, would be in the vicinity of $10.9 million. In April 1985 East Port submitted a price of $9.4 million, and Canterbury/ Corkum's price was $11.3 million for comparable specifications.

The difference between the two projects, if they were purchased outright, has the Canterbury/Corkum Group proposal costing $1.9 million, or 20 per cent, more than East Port Properties. The Canterbury/Corkum proposal was the choice of staff, senior management, the consultant, the NSLC Commissioners, and was recommended to Government April 12, 1985, as it was considered superior based on program and function, design, and quality.

Although there were detailed financial analyses, comparisons to the other ranking criteria were limited. Senior management of the NSLC attended presentations made by the two final groups, and participated in an assessment of the two. Also, a brief qualitative comparison between the two was prepared by the Director — Property and Development. We would have expected a detailed qualitative comparison to have been prepared as part of the April 1985 report for decision purposes. This was not the case.

Decision to Lease/Purchase — The NSLC considered three primary means of financing the complex. These were outright purchase, a lease arrangement, and a lease/purchase agreement. The analyses prepared by the NSLC indicate that the most economical alternative of the three would have been an outright purchase.

The analysis of lease and lease/purchase transactions relies heavily on the concept of time value of money, specifically the present value of amounts payable in the future. Using this concept you determine what the stream or flow of future payments related to these transactions is worth today.

For example, if present value techniques were not used, one might conclude that a payment of $1,000 per year for ten years would be equivalent to a payment of $10,000 today. In fact, this stream of payments would be worth far less than $10,000 because one has to wait from one to ten years for each of the $1,000 receipts.

In this example, assuming an interest rate of 10%, the $1,000 to be received in the fifth year is equivalent to $621 today because $621 invested at 10%, compounded annually, would grow to $1,000 by that time. Similarly, the $1,000 to be received in the tenth year has a present value of $386 — the amount which, if invested at 10% compounded annually, would grow to $1,000 in ten years. In this example, the present value of the total of the ten payments is $6,145 — the amount which could be invested today and enable the withdrawal of $1,000 at the end of each of the next ten years with no balance remaining at the end of that time.

The concept of present value is a well-recognized technique, used extensively in the analysis of real estate and other types of financial transactions. Payments will be converted (or discounted) to their present value today — an amount significantly less than the simple sum of the payments.

A critical element in the calculation of present value is the choice of an appropriate discount rate. The discount rate usually represents the cost of borrowing funds (interest rate) and it can vary significantly over time. In reviewing the final two proposals, the NSLC used an interest rate of 12.4%. At the time these calculations were

done this was within the range of the rates being paid by the Province on newly issued long-term debt.

The outright purchase price for East Port was $9.4 million. The lease/purchase option based on a thirty-year term, was $10.9 million stated in present day dollars. The outright purchase price for the Canterbury/Corkum proposal was $11.3 million, and $12.6 million under the terms of a twenty-five year lease/purchase offer.

Most of the additional costs of a lease/purchase agreement relate to financing charges for such an acquisition. These costs would be for pre-development fees, commitment fees, application and appraisal fees, mortgage brokers' fees, as well as annual administrative fees.

Approximate equivalent costs would be incurred had the NSLC taken out a mortgage itself directly with a lending institution. Had the NSLC financed the acquisition of the facility directly through the Province at the Provincial borrowing rate of 12.4%, there would have been a savings of $1.3 million.

It is perhaps best noted at this point that the NSLC lease payments are to Uniacke Properties Limited. This company was established after the project selection was made, and accommodates the NSLC option, as stated in the proposal documents, for a lease/purchase arrangement. The Directors of Uniacke Properties Limited were all principals in The Canterbury/Corkum Group.

Regardless of the source of financing, the debt will be paid off through instalment payments at regular intervals, and consideration must be given to the cash flow throughout the life of a project. From a cash flow perspective, it is our contention that it would have been cheaper to have acquired the facility as an outright purchase.

Included in the April report prepared by NSLC staff was a schedule and narrative which compares the undiscounted payments of East Port for 30 years, to a similar option for Canterbury/Corkum for a 25-year term. This comparison results in a total cash outflow to lease/purchase the East Port property of $39,542,310 and a figure of $39,071,139 for Canterbury/Corkum.

As a result, the Canterbury/Corkum proposal was rated as over $400,000 cheaper than East Port's, and was termed the *"lowest rental cost to ownership"*. As indicated earlier, the more acceptable method of evaluating projects such as this takes into consideration the time value of money, while the total cash outflow method does not. Although the NSLC Board of Commissioner's minutes referred to discounted or net present value amounts, the April 1985 report to Government includes these amounts only as appendices, not in the body of the report.

Space Utilization — The third area we reviewed was the extent to which the space in the complex was being used. We were interested in finding out whether the size of the warehouse was appropriate for the volume of inventory handled.

As mentioned earlier in this article, NSLC warehousing had previously been conducted from five separate locations, with a total of 113,000 square feet, exclusive of Licensee space and the Acadian/McGuinness area. In addition to the warehouse, there were dock loading bays, and space for general vehicle traffic flowthrough.

With the move to the new facility, all these locations were combined under one roof and on one floor level. The proposal call included provisions for future physical expansion, as well as providing for warehousing changes which would allow for an internal expansion of capacity. Specifically this would include changes in the racking and inventory handling equipment so as to more efficiently utilize space. Not all of this space was intended to be used immediately, because of the high costs of changing to a new system.

The total warehouse area, excluding loading dock areas, etc., is about 110,000 square feet, which compares to the previous warehouse area of 113,000 square feet. In addition, the new warehouse distribution centre took in the Licensee operations which had previously been handled at two separate locations in Halifax and Dartmouth, with an area of 34,000 square feet. However, with the increased height in the warehouse, the total cubic area has been more than doubled in the new facility. In order to fully use this capacity, additional equipment will be required. This will be done through replacement of older equipment as it becomes non-serviceable.

In an effort to project space requirements in relation to inventory storage needs, an analysis made in November 1984 showed that:

3 high pallet storage would provide a 359,000 case capacity;

4 high pallet storage would provide a 526,000 case capacity; and

5 high pallet storage would provide a 655,000 case capacity.

Internal NSLC documents from 1984 indicated that a warehouse with stacking capabilities of 4 pallets high would be sufficient at a 3% annual growth for 30 years. This analysis has not been revised since that date. Because of the introduction of products such as wine coolers, and the possibility of further new products, this growth and time period may not be truly indicative of storage requirements.

The NSLC thought they could operate with a warehouse of four pallets high, but construction costs of only $80,000 would permit increased capacity to five pallets high. The NSLC decided to take advantage of the option which provides for stacking of inventory five pallets high.

More recent analysis prepared by NSLC staff at our request during the current review indicates that there will likely be a greater need for storage in the warehouse than was anticipated in 1984. This is because of the ramifications of Free Trade and GAAT negotiations, as well as continuing implementation of a policy to reduce inventory levels in the retail stores.

It is now anticipated that 3 pallet high storage will only handle 278,000 cases. Storage of 4 pallets high is now calculated to handle 423,500 cases; and 5 pallets 511,000 to 564,000 cases.

However, a move to 4 and 5 pallet high storage will necessitate substantial investment in new racking and other equipment, estimated to be at least $650,000 to $700,000.

Inventory data prepared by NSLC staff indicates that during the 1985-86 fiscal year, the last year with separate warehouse locations, the total month-end inventories ranged from just over 100,000 cases to a high of over 136,000 cases. The average was about 119,000 cases. Similar figures for 1988-89, which include coolers, show that the total month-end inventories ranged from a low of 145,000 cases to a high of 215,000 cases. The average during this year was about 173,000 cases.

We acknowledge that a warehouse operation will not normally have 100 per cent utilization at all times. Furthermore, it is a sensible decision to provide for some future expansion if the additional costs are not excessive. However, our analysis and the information available to us indicate that the total capacity of the warehouse area appears to be greater than is necessary in the immediate future.

Selection of Site — The proposal call did not indicate a specific location or area in which the facility was to be located. Developers were restricted only by a requirement that the location be in *"close proximity and easily serviced by the Halifax-Dartmouth Metropolitan transportation network, present and proposed"*. In addition, they were to provide comparisons of the impact the various sites suggested would have on the costs of acquisition and distribution of product.

Five different sites were identified in the five proposals submitted under Stage II. These were the Bayers Lake Industrial Park, two sites in the Burnside Industrial Park, and two sites in the Bedford area. Most proposals offered more than one site.

An analysis of the impact on transportation costs indicated that the Halifax site would result in no cost differential, while the Dartmouth and Bedford sites would add $2,000 per year.

Each site was further analyzed based of the impact of the location on the Licensee operation for the Halifax-Dartmouth area, the effect on corporate image, the development potential, and a land and development cost comparison of the individual sites.

As the cost of all sites did not appear in the proposals, the Dartmouth location was used as the base price. From the data provided, the consultant determined that the Bedford location could add up to $1.5 million, and the Halifax location could add up to $290,000 in additional costs, depending on the proposal. The proposal selected included no additional costs for using the Halifax site.

Although eventually the Halifax site was recommended, initially it was not available for immediate development. However, commitments for the required servicing of the site were received from the Halifax Industrial Commission before the final decision to locate there was made.

The NSLC purchased the land from the City of Halifax/Halifax Industrial Commission, and leased it back to the developer for $1 per year.

Summary of the Decision

The main points concerning the decision to acquire a new facility, the process for selecting the developer, the method of financing the project, and the capacity of the warehouse may be summarized as follows.

- The decision to acquire, and the selection of, a new distribution centre and head office complex involved considerable input from NSLC staff, NSLC management, an outside consultant, and NSLC Commissioners, in their briefings of and recommendation to the Minister in charge of the NSLC, and the Government.

- A lease/purchase option was chosen over an outright purchase. The NSLC calculated the Net Present Value (NPV) of the payments, using an appropriate interest rate of 12.4%. The outright purchase of the selected project, if financed directly by the Province at 12.4%, would have cost $1.3 million less, in present day dollars than the lease/purchase option.

- The Canterbury/Corkum Group proposal was selected over that of East Port Properties Limited. On an outright purchase basis Canterbury/Corkum would have cost $1.9 million, or 20% more than East Port.

- Both proposals satisfied the requirements as set out in the proposal call of September 1984. However, the Canterbury/ Corkum proposal was considered superior, based on program and function, design, and quality.

- Subsequent to the March 1985 discussions with The Canterbury/Corkum Group and East Port Properties, NSLC staff prepared a "Performance Specification Review" in outline form. This compared construction features between the two proposals. However, there was no summary of this comparison, nor were there staff conclusions relating to the key aspects of the two proposals. As auditors we had expected a more complete and formal presentation in support of the recommendation to Government.

- The warehouse area presently contains considerable unused space. This is due in part to anticipated space requirements for product growth expected to occur over time. Our analysis indicates that 1988-89 inventory levels, with a high of 215,000 cases, used approximately one-half of the 1990 projected 4 pallet high capacity of 423,500 cases, or 42 per cent of the revised 5 pallet high capacity of 511,000 cases.

Victoria General Hospital

Summary

The Victoria General Hospital is a crown corporation subject to the provisions of the Victoria General Hospital Act. The 800 bed hospital is the major tertiary care, teaching, and referral centre in the Maritime provinces. The Victoria General Hospital Foundation is a non-profit charitable organization. Its objectives are to assist the Hospital with the funding of patient care, teaching and research activities.

Background — During 1989, we completed a review of three operational areas of the Hospital, namely: financial management, materiel support services and industrial engineering. This broad scope audit was performed in addition to our annual financial statement attest and compliance audit. During the year, we also completed a review of the operations of the Victoria General Hospital Foundation.

Objectives — In summary the objectives of our assignment at the Hospital were to assess:

— the financial management systems;

— the materiel support services function; and

— the industrial engineering function.

The objectives of our review of the Foundation were:

— to assess its policies and practices for financial management, grants and equipment purchases; and

— to obtain an understanding of the relationship between the Foundation and the Hospital.

Findings and Conclusions — In overview, the following are our summary comments and conclusions.

Victoria General Hospital

- The financial management process at the Hospital has been seriously deficient during the past five years, particularly in light of the size and complexity of the Hospital and the advances in financial management achieved by other hospitals. Because the deficit of the Hospital has been funded by the Province in recent years there has been little motivation for the Hospital to take the issue of financial management seriously.

- Inadequate inventory management systems exist in Materiel Support Services and Pharmacy.

- The emphasis on industrial engineering at the Hospital should be increased, even if that necessitates the devotion of more corporate resources to the function.

Our report was very well received by the Hospital. At the conclusion of the audit, the Chief Executive Officer and his staff prepared a response to our report which noted the extent of progress to date in implementing our recommendations and future plans for implementation. Further discussions with Hospital management indicated that the majority of our recommendations will be implemented in the foreseeable future.

Victoria General Hospital Foundation

- Donations to the Foundation are used to aid the Hospital in providing quality patient care. The process for allocating these funds is well-controlled and thorough.

- The Foundation is involved in many fund-raising ventures other than the solicitation of donations, including: operation of the Hospital parking lots; investment of Foundation funds in partnership ventures; and financing of major equipment purchases for the Hospital. We found several instances where complete, formal agreements with parties external to the Foundation

were lacking. We also found that the results of services and partnerships were not being monitored on a regular basis to ensure that the Foundation was actually receiving the revenues to which it is entitled.

- We believe that there is a need for a clearer definition of the roles and responsibilities of the Hospital and the Foundation in the activities in which they are both involved. Agreements between the two organizations should be formalized.

At the conclusion of the audit, the Managing Director of the Foundation prepared a response to our report which noted the extent of progress made in implementing our recommendations.

This report on our review of the Hospital and the Foundation is organized under the following captions:

Financial Management

Materiel Support Services

Industrial Engineering

Victoria General Hospital Foundation

Path Scientific Research Limited Partnerships

Financial Management

Introduction

The Victoria General Hospital is a large and complex operation with more than 400 cost centres. For 1988-89, the net operating budget approved by the Department of Health and Fitness was $133.6 million. Actual net operating costs were $139.2 million which resulted in a deficit on operations of $5.6 million. The Hospital has operated at a deficit for each of the last five years. The deficit has been funded by the Province.

In 1981, this Office conducted a review of the financial management function of the Hospital. This review noted significant deficiencies in the organization of the financial management function, the administration of the budget and the financial control systems and we recommended improvements in these areas.

In 1987, we were unable to provide an opinion on the financial statements submitted as part of the Annual Return of Health Care Facilities — Hospitals — Part II because the accounting and control systems of the Hospital had deteriorated to such an extent that management of the Hospital indicated to us that they did not believe that the Hospital had a system of internal control adequate to permit the preparation of accurate financial statements with respect to timeliness and classification of information.

Our 1987 Report also noted our concern with respect to the administration and staffing of the accounting function at the Hospital and our contention that the accounting and control function has not received the degree of executive priority that it should have.

In December 1987, the Department of Health and Fitness commissioned a special study by a national firm of management consultants in recognition of continuing difficulties with respect to control over budget, the need for accurate interim financial operating data, and other related problems concerning the operation of the accounting, financial, and statistical reporting systems in place at the Hospital. As a result of that study the decision was made to acquire a new financial information system for the Hospital with implementation scheduled to start in April, 1990.

Since mid-1988, there have been significant senior management changes at the Hospital including the appointment of a new Chief Executive Officer and a new Chief Financial Officer. A new Administrator of Health Care Institutions was also appointed at the Department of Health and Fitness. All have demonstrated a commitment to improving the financial management situation at the Hospital.

Objectives and Criteria

The objectives of our review of the financial management area were to:

— obtain an overview of the financial management system;

— review the roles of the Finance Division of the Victoria General Hospital and the Department of Health and Fitness in the budgetary process and to assess their effectiveness in the preparation of realistic budgets for the Hospital;

— ascertain whether the financial management system provides necessary information for decision-making and the control of expenditures and revenues for the efficient and effective administration of the Hospital's activities; and

— evaluate the system used to identify and approve new or expanded programs for submission to the Department of Health and Fitness for funding approval.

The following major criteria were used in our review of the financial management process.

- Policies and procedures should be clearly defined and communicated to staff.
- There should be a meaningful challenge and review process for budget and new program submissions within the Hospital.
- Regular financial reports should be produced to meet the needs of management, the Board of Commissioners and the Department of Health and Fitness on a timely basis.
- Actual results should be compared to plans on a monthly basis. Significant variances should be investigated.

- Cost centre managers, the Finance Division of the Hospital, senior managers, the Board of Commissioners and the Department of Health and Fitness should all be appropriately involved in the budgeting/financial management process.

Budgeting

We concluded, on the basis of our review of the budgeting process, that this area is seriously deficient. Major weaknesses in the budget preparation process included:

— lack of formalized policies and procedures for budget preparation;

— limited input from cost centre managers;

— lack of a rigorous budget challenge process within the Hospital to ensure that all funds requested were necessary;

— funding decisions made by the Department of Health and Fitness which were perceived as arbitrary by the Victoria General Hospital;

— Board of Commissioners authorization of a rate of spending higher than the amount approved by the Department of Health and Fitness although the approved amount was not appealed;

— failure to allocate the approved budget to cost centres on a timely and realistic basis; and

— poor communication between the Hospital and the Department of Health and Fitness particularly in obtaining explanations for the differences between amounts requested and amounts funded.

We made numerous recommendations in this area, including:

— increasing the involvement of cost centre managers in the budget preparation process;

— holding those who make decisions to incur expenditures accountable for the costs;

— rigorously challenging budget requests within each Division and on a Hospital-wide basis;

— ensuring that managers are required to rationalize and defend their entire requests, not just the increment over the prior year; and

— re-establishing the role of the Department of Health and Fitness consultants in explaining the Department's funding decisions to the Hospital's cost centre managers.

We also recommended that the Board of Commissioners assume responsibility for having the Hospital operate within the budget approved by the Department of Health and Fitness. If the amount approved by the Department is less than the budget

approved by the Board, the Board should reduce costs, launch a successful budget appeal, combine these two alternatives or obtain alternate funding.

Management subsequently prepared a budget manual for use by cost centre managers when preparing their budget requests. The involvement of cost centre managers in the preparation of the 1989-90 and 1990-91 budgets was increased. Senior management has established a model for a more rigorous challenge of budget requests.

The 1988-89 budget allocation was appealed by the Hospital as one of the first steps in improving the financial management process. The 1989-90 budget allocation was also appealed. The Hospital had not appealed its budget allocation since 1981, although the Department of Health and Fitness has an established process whereby hospitals can appeal their budgets.

The role of the Department of Health and Fitness consultants has been re-established at the Hospital. This has led to improved communication between the Hospital and the Department and an attempt to convey the rationale for Department of Health and Fitness funding decisions to the Hospital.

Financial Reporting

We noted deficiencies in the timing, accuracy and format of financial reports prepared for management, the Board and the Department of Health and Fitness.

- Cost centre managers indicated that financial reports were received three weeks to two months after month end and that the reports frequently contained errors which made comparisons of actual to budget difficult.

- At the time of our review, the total budget allocated to cost centres could not be reconciled to either the Department of Health and Fitness approved budget or the Board approved budget. Cost centre managers were, therefore, uncertain of their correct budget allocations.

- Formal narrative variance analyses highlighting significant differences between planned and actual results were not prepared for management and the Board. Although senior management indicated that monthly variance analyses were prepared for divisional managers, there was inconsistency in the size of variances requiring an explanation.

We made several recommendations for improvements in the financial reporting process. The Hospital has selected both computer software and hardware for the new financial information system to be implemented over the next two to three years. Financial reporting was deemed to be a priority when the new system was selected by the Hospital and should improve when the new system is implemented.

New or Expanded Programs

Our review of the process for administration of new or expanded programs revealed that these programs were often initiated by the Hospital and approved by its Board without approval of funding by the Department of Health and Fitness. Major deficiencies in the process included:

— failure to meet Department of Health and Fitness deadlines for submission of proposals and, as a result, possible loss of funding;

— an inconsistently applied challenge and priorization process within the Hospital for new or expanded program proposals;

— implementation of new or expanded programs which were not approved or funded by the Department, contributing to Hospital deficits; and

— the lack of a post-implementation evaluation process to review the results of new or expanded programs.

We recommended that program proposals be rigorously challenged and priorized by senior management and the Board of the Hospital prior to the deadline established by the Department of Health and Fitness. We also recommended that no new or expanded programs be implemented without Department of Health and Fitness approval or another source of financing and that guidelines for evaluating the success of new programs be implemented as soon as possible.

In September, 1989 a Planning and Evaluation Division of the Hospital was formed. The new or expanded program process has become the responsibility of this Division. During the last year, a structured two-stage program proposal process has been adopted which is governed by formal guidelines for budget managers.

All new or expanded program proposals for the 1990-91 fiscal year were reviewed and priorized by the Management Committee of the Hospital using agreed upon criteria. The Board of Commissioners expressed their satisfaction with the content of the proposals and the process. The proposals were submitted to the Department of Health and Fitness by the deadline. The Hospital has indicated that, in the future, no new programs will be implemented without appropriate funding.

The Division of Planning and Evaluation has a mandate for the development of a methodology for program evaluation. New or expanded program submissions for 1991 contained specific measurable objectives and identified both relevant outcome measures and appropriate results indicators. The Hospital has indicated that evaluation of existing programs will be undertaken as priorities emerge and resources permit.

Capital Equipment, Renovations and Maintenance

There were several significant deficiencies in the processes for approval, budgeting and purchasing of capital equipment and maintenance and renovation projects.

- There was no systematic replacement policy or long-term strategic planning for capital equipment and renovations.

- Although there was a system for post-utilization review of equipment purchases under $50,000, the process was not conducted as frequently as originally intended by the Hospital. There was no system for post-utilization reviews of capital equipment purchases over $50,000 to ensure that results specified in the proposal for the equipment purchase were obtained.

- There was a need for improvements in the system of financial reporting of actual capital equipment expenditures as compared to budget.

- Communication and coordination of Hospital and Department of Government Services efforts were deficient in the areas of maintenance and capital renovation projects. There was a need for improved controls and information flow regarding estimates, verification of costs, billings and assignment of priorities.

We recommended that:

— strategic plans of the Hospital should address long-term capital equipment and renovation implications;

— specific improvements be made to the financial reporting process;

— post-acquisition reviews be conducted at least every two years and include equipment costing more than $50,000; and

— improvements be made in the controls and information flow between the Hospital and the Department of Government Services.

The Hospital has recently re-established its Strategic Planning Committee and has ensured that it includes a representative of the Hospital's Capital Equipment Committee. A ten-year Capital Renovation Program for the Hospital has been prepared. The Department of Health and Fitness now approves hospital construction expenses previously included in the Department of Government Services maintenance expense categories. All of these initiatives should contribute to the improvement of the Hospital's procedures for planning, approving, and budgeting for capital equipment and repairs and renovations.

Improvements in the financial reporting process for capital equipment are planned and the Hospital has indicated that a procedure is being designed to ensure that post-utilization reviews of equipment purchases are conducted.

Hospital management indicated that the amount funded by the Department of Health and Fitness for capital equipment purchases is insufficient to provide for orderly replacement of equipment by the end of its useful life. We recommended that the Hospital conduct a study of its ability to replace equipment considering existing levels of service and funding and submit it to the Department of Health and Fitness for consideration.

The Hospital indicated that it is currently in the process of improving its information base on the age, location, and replacement value of capital assets. Once this is done, it will be able to define its requirements for replacement of capital assets and provide a documented request for additional funds.

Materiel Support Services

Introduction

The Department of Materiel Support Services is responsible for purchasing and inventory management at the Hospital. Purchasing must comply with the provisions of the Nova Scotia Government Purchases Act, therefore the majority of purchases are made through the Nova Scotia Government Purchasing Agency. Major exemptions include materiel with a value less than $200 and drugs purchased from the Nova Scotia Hospital.

In February, 1985 a report on the materiel management function at the Hospital was completed by a firm of management consultants hired by the Hospital. That report contained 20 recommendations for improvement of all areas of the materiel management function. Our review indicated that most of the recommendations in that report have been considered and acted upon, at least partially, by the Hospital.

Objectives and Criteria

The objective of our review of this area was to determine whether adequate procedures and management controls are in place to provide an effective materiel support services function.

The criteria used in our review of this area included: clearly defined and communicated policies and procedures; availability of the proper quantity and quality of materiel when required; and the use of properly trained and supervised staff.

Observations

There is an inadequate system for materiel management in the Department of Materiel Support Services and in the Department of Pharmaceutical Services of the Hospital at the present time. The inadequacy of the inventory management system in the Pharmacy has been reported upon by this Office in the past. The new financial information system will have a materiel management component which should address this problem.

We were generally satisfied with the management of the materiel support services function. The relationship with the Government Purchasing Agency appears to be satisfactory. Management of the Department of Materiel Support Services indicated that the Government Purchasing Agency performs its function for the Hospital efficiently and in a conscientious manner. Senior management in various areas of the Hospital indicated that stock-outs are the major problem in the materiel support function. Our investigation of the situation indicated that it is improving significantly. Management is aware of the problem and successfully achieving targets for reduced levels of stock-outs which they have set.

Eighty per cent of the Hospital's drug purchases are obtained through the Nova Scotia Hospital. The Victoria General Hospital has been experiencing a significant number of out-of-stock orders on these purchases. This leads to increased levels of inventories at the Victoria General Hospital and an increase in the number of emergency purchase orders.

We have recommended that discussions be conducted with the Nova Scotia Hospital and the Government Purchasing Agency to find ways to reduce the number of stock-out situations experienced on drug orders. The Hospital has indicated that inproved formal and informal communications between the two hospitals have resulted in marginal improvements.

Industrial Engineering

Introduction

There is a need for industrial engineering in a hospital of this size because managers often tend to be highly specialized, technically trained individuals who require the support of an industrial engineering group. The 1981 Report of the Auditor General recommended the introduction of industrial engineering to the Hospital to encompass general systems and methods work, feasibility studies for staffing and equipment purchases, development of standards and performance indicators, and possibly certain aspects of data processing.

The Department of Management Engineering was established at the Hospital in late 1981. It has two divisions: Management Information Systems (computer operations); and Industrial Engineering.

Objectives and Criteria

The objectives of our review of this area were to determine what capabilities the Hospital has in industrial engineering and to evaluate these capabilities and accomplishments in relation to the perceived needs for industrial engineering in a hospital of this size and complexity.

Observations

Our review indicated that approximately 50% of staff time in the Industrial Engineering Division is spent on work which cannot be considered traditional industrial engineering. We also found that there was not a clear understanding among Hospital managers as to what Industrial Engineering can and should be contributing to the Hospital.

We recommended that the emphasis on industrial engineering be increased even if that necessitates an increase in the amount of Hospital resources devoted to the function. Subsequent to our review, the complement of the Industrial Engineering Division was increased by one engineer and the Division is currently being restructured to emphasize skill specialization.

Throughout the summer and fall of 1989, the Manager of Industrial Engineering provided in-service orientation to Hospital managers on the role and function of industrial engineering so that the function may be better positioned in strategic and operational plans. Current demands for industrial engineering projects exceed the available staff.

Annual and multi-year plans are now being developed for Industrial Engineering. These plans will be brought before Management Committee for review each year.

Victoria General Hospital Foundation

We are not the appointed financial statement auditors of the Foundation. However, Section 16(a) of the Victoria General Hospital Foundation Act states that the accounts of the Foundation may from time to time be audited by the Auditor General. This was our first audit of the Foundation.

At the time of our review, the Foundation was involved in several different types of activities:

- solicitation of donations from the general public and use of those funds to aid the Hospital in providing quality patient care;
- administration of parking for the Hospital;
- provision of public relations services to the Hospital;
- financing of certain major equipment purchases for the Hospital;
- partnership ventures with Path Scientific Research Limited and the Victoria General Hospital (to be commented on in a later section of this article); and
- administration of other activities for the Hospital (e.g. vending and patient television services) which generate revenue other than donations.

Subsequent to our review, the public relations function was transferred from the Foundation to the Hospital.

The Foundation had total assets of $6.1 million as at March 31, 1989 of which $1.5 million represented trust funds administered by the Foundation. Total equity of $4 million consisted of designated funds of $1.8 million (which must be used for specific purposes), undesignated surplus of $.4 million and investment in capital assets of $1.8 million.

Objectives and Criteria

The objectives of our review of the Foundation were:

- to assess the policies and practices of the Foundation particularly in the areas of financial management, grants and equipment purchases;
- to gain an understanding of the relationship between the Foundation and the Victoria General Hospital; and
- to examine the Foundation's planning process.

For each area of the Foundation's operations which we reviewed, specific criteria were developed and discussed with management of the Foundation. These criteria included clearly defined policies and procedures appropriate for a charitable foundation, adequate financial reporting to senior management and the Board, clearly defined criteria for awarding of grants, and adequate monitoring of results of investments and partnerships.

Grants Committee

The Foundation solicits and receives donations from the general public. Donors may impose certain restrictions on use or designate donations as unrestricted.

If restricted, donations are used for purposes specified by the donor. If unrestricted, the Grants Committee of the Foundation reviews applications from the Hospital and makes recommendations to the Board of Directors of the Foundation for grants. The Grants Committee includes membership from the Hospital, the Foundation and the community.

Our review indicated that the Grants Committee's application and review process is well-controlled and thorough. No administration fee is charged against donations, therefore all funds received are used to benefit the Hospital.

We recommended that the Grants Committee should formalize specific criteria to be used in the process of awarding grants and that the Terms of Reference of the Grants Committee should specify that an appropriate number of the members of the Committee should be physicians on the staff of the Hospital. We also recommended that a post-utilization review process should be instituted to ensure that the equipment and research funding approved by the Grants Committee has led to the benefits specified in the application.

The Foundation has indicated that the Terms of Reference for the Grants Committee have been under review since April 1989 by a committee of the Foundation and the Hospital. The Foundation and the Hospital have recently reached agreement in principle regarding revised Terms of Reference for the Foundation Grants Committee. The new Terms of Reference will address the issues raised in our audit report.

Administration of the Foundation

The Foundation has a 15 member volunteer (unpaid) Board of Directors. The Foundation is administered by a Managing Director and had a full-time staff of 13 prior to the transfer of the public relations function to the Hospital in late 1989.

Our examination of the administration of the Foundation included a review of: policies and procedures in key areas; accountability reporting to the Managing Director and the Board; strategic and operational planning; cash management; financial statement presentation; status of agreements governing various Foundation operations (discussed in the next section of this article); and control and monitoring of partnership agreements (discussed in the Path Scientific Research Limited Partnerships section of this article).

Our review indicated that there is a lack of documentation of key policies and procedures, particularly those related to the operation of parking lots, purchasing, and investment of funds. Management has indicated that they are in the process of formalizing key policies.

We recommended that the Foundation prepare an Annual Report for its members. In the past, the Foundation has used the Chairman's Report, and the audited financial statements, instead of a formal annual report. The Foundation

Board has given consideration to providing a formal Annual Report for the next annual meeting.

Although the Board had approved an investment policy for the Foundation prior to our review, it had not given management approval to implement the policy. We recommended that the investment policy be implemented as soon as possible.

Our review of the Foundation's planning process indicated that little attention has been devoted to establishing long-term goals and objectives. Since its creation the Foundation's role has been mainly to respond to the wishes of the Hospital. The Hospital and the Foundation have recently met to discuss the development of strategic planning for the Foundation.

Our review of the Foundation's budgeting process concluded that it appears appropriate for such an organization.

We suggested several improvements in financial statement presentation which were discussed with the Foundation's external auditors. The Foundation indicated that they will discuss our recommendations in this area prior to the 1990 fiscal year end.

Formalization of Agreements

The Foundation is involved in many activities other than the solicitation of donations. These include the financing of major equipment purchases for the Hospital, the operation of the Hospital parking lots, a fund-raising bingo partnership with the Nova Scotia Sport Heritage Centre, the operation of vending machines in the Hospital, and administration of patient television services. All of these activities involve agreements with the Hospital or other parties external to the Foundation.

The Foundation has been involved in the purchase of three major pieces of equipment for the Hospital. In all three instances, formal agreements with the Hospital were deficient or non- existent.

In one case there was a formal agreement between the Hospital and the Foundation but there were still significant outstanding issues relating to the funding arrangement. We recommended that another agreement be executed to resolve these issues.

In the other two cases the equipment was installed in the Hospital without a formal agreement being made by the Hospital, the Foundation, and the Department of Health and Fitness regarding the funding. This lack of agreement has led to delays in paying the suppliers of the equipment.

Another example is the parking agreement with the Hospital which had expired and had not been renewed. The expired agreement did not specify what the Foundation could do with the parking profits.

The Foundation indicated that it attempted to have formal agreements signed prior to the equipment purchases but that administrative changes within the Hospital and the Department of Health and Fitness delayed the process.

Path Scientific Research Limited Partnerships

Introduction

Path Scientific Research Limited is a corporation formed by two pathologists and an environmental chemist who perform services for the Victoria General Hospital and Dalhousie University.

During 1987, the Victoria General Hospital and the Victoria General Hospital Foundation entered into two agreements with Path Scientific Research Limited. The purpose of the partnership agreements was to conduct research and provide analytical and consulting services to government departments, agencies and others requiring testing of water and other samples for organic and inorganic compounds.

The agreements provided for advances of $217,000 to the partnerships by the Foundation for equipment purchases, performance of the research and analytical work by Path Scientific, and the provision of space, personnel, and other services to Path Scientific by the Hospital. The agreements also provided for recovery of the Hospital's costs from the partnership and for a sharing of partnership income among Path Scientific Research Limited, the Victoria General Hospital Foundation, and Dalhousie University. Dalhousie is a partner in only one of the two agreements. The Foundation's advances to the partnership were to be recovered from partnership profits over a period of approximately five years.

The formation of Path Scientific Research Limited was approved by the Department of Health on May 1, 1987 under the following conditions.

- It is to be operated as a non-profit company.
- Department of Health approval must be obtained for each new project.
- Direct funding will not be required from the Department of Health.
- The projects must not compete against services currently available from established companies in Nova Scotia.
- Copies of audited financial statements and other information requests will be provided to the Department of Health on request.

At approximately the same time as we were conducting our examination of the Foundation, questions about Path Scientific were raised in the House of Assembly. As a result, the Department of Health and Fitness commenced an internal audit of the partnerships involving the Foundation, the Hospital, and Path Scientific Research Limited. We have reviewed the report of the Department of Health and Fitness and accompanying recommendations along with the responses of the Hospital, the Foundation, and Path Scientific.

Observations

Our review of the two agreements with Path Scientific Research indicated that there were omissions and deficiencies and that some of the provisions were unclear. For example, there was no requirement for audited financial statements for the

partnerships and no indication of when payments were to be made to the partners. The means of allocating partnership profits was not described clearly and could be interpreted in several different ways.

We recommended that all future agreements of this type be thoroughly reviewed by lawyers for the Foundation and Hospital prior to execution, and that all relevant terms and conditions be clearly defined.

We also found that the Foundation was not monitoring these agreements as closely as it should. The Foundation was not receiving regular payments from the partnership and could not tell us how payments received related to the agreements and financial statements of the partnerships.

We recommended that the Foundation should compare, on a regular basis, actual results with budget and also with the partnership agreements. Differences should be investigated with Path Scientific as the Foundation becomes aware of them.

Department of Health and Fitness Internal Audit Report

The following are three significant matters which were reported in the Department of Health and Fitness internal audit report.

- Path Scientific was established as a "for profit entity", rather than a non-profit entity, in contravention of the conditions under which the Department approved the establishment of the company.

  Since Path Scientific intends to continue operating as a "for profit entity", it has been required to vacate its premises at the Hospital.

- The Department of Health and Fitness also determined that not all administrative services provided by the Hospital to the partnerships had been billed and that reimbursement had not been obtained.

  As a result of that finding, the Hospital billed the partnerships for all outstanding administrative charges and subsequently received payment for the full amount. The Hospital agreed to make timely recovery of costs in the future to ensure that Path Scientific Research is not receiving an unintended benefit from the Hospital.

- The Department of Health and Fitness also noted the deficiencies in the agreements and in the Foundation's monitoring procedures (which we had noted in our report to the Foundation). The Department concluded that *"implementation of adequate financial procedures would ensure the integrity and timely receipt of financial rewards* [*by the Hospital and the Foundation*] *anticipated in the partnership agreements."*

Following that review, there were meetings between representatives of the Hospital, the Foundation, the Department of Health and Fitness, and Path Scientific Research Limited to discuss the problems. Policies have been established in several critical areas including recovery of costs by the Hospital, provision of audited financial statements and an annual report by the partnerships, approval of Path Scientific invoices for payment by the Hospital, and approval of any new projects by the Department of Health and Fitness.

Current Status

At the time of our audit, there were two agreements between the Hospital, the Foundation and Path Scientific Research Limited under which the Foundation had provided $217,000 to the partnerships for equipment purchases. This amount is to be repaid from partnership profits over approximately five years.

Amendments to the partnership agreements between the Hospital, the Foundation and Path Scientific Research Limited are currently in draft form. These amendments include a requirement for the partnership to provide audited financial statements.

The amendments also include provision for an additional advance of $222,000 from the Foundation to the partnership for equipment purchases as well as $180,000 to be borrowed by the partnership from a third party lender or the Foundation. If borrowed from a third party lender, the Foundation will guarantee the loan if the lender so requests. These funds will be repaid from partnership profits over a period of approximately five years. The commitment to advance the additional funds was made by the Foundation prior to the release of the Department of Health and Fitness report on the operations of Path Scientific.

A Management Co-ordination Committee consisting of one representative from each of the Hospital, the Foundation and Path Scientific Research Limited was formed in June, 1989 to coordinate and administer the affairs of the partnership involving the Hospital, the Foundation and Path Scientific on an on-going basis and to ensure that the terms and conditions of the contractual documents and the requirements of approved policies are met.

A letter dated October 2, 1989 from the Deputy Minister of the Department of Health and Fitness to the Chief Executive Officer of the Hospital stated: *"Due to the fact that Path Scientific cannot accept the not-for-profit condition, it is not appropriate for them to continue operations from the venue of the Victoria General Hospital. It is also not acceptable for the hospital to provide any services to the company. In addition, if any work is to be undertaken by Path Scientific on behalf of the hospital, a tendering process must be followed as there is to be no direct referral to Path Scientific."*

As of March, 1990 the operations of Path Scientific Research Limited are to be moved to new premises which are not owned by the Hospital. After that date, no further services or supplies will be provided to Path Scientific by the Hospital. As previously mentioned, the costs of all services provided by the Hospital to Path Scientific Research Limited have been recovered.

The original partnership agreements, signed in 1987, specify that the Foundation's investment in the partnerships is to be repaid from partnership profits and that the Foundation will share in future profits of the partnerships. Because of this earlier financial arrangement, current senior management at the Hospital and the Foundation believe it financially prudent to direct the Hospital's environmental testing business to Path Scientific Research Limited so that there will be assurance of profits to repay the investments and contribute to future Foundation revenues.

Concluding Remarks

At the time of our current review, there were significant long-standing deficiencies in the financial management of the Hospital. We noted some of these in our 1981 Annual Report. Deterioration of financial management in the intervening years led to another commentary on the problem in our 1987 Annual Report.

The Victoria General Hospital Foundation has also experienced difficulties in the administration of some of its activities. Since the Foundation's activities are so closely related to those of the Hospital, deficiencies in financial management of the Hospital have been the root of many of the Foundation's problems, for example the failure of the Hospital to formalize documentation for many agreements and the lack of a strategic plan for the Foundation.

Our examination of the partnership agreements with Path Scientific Research Limited demonstrated a lack of attention to these agreements on the part of the Hospital and the Foundation. Again, the deficiencies in this area can be directly attributed to the weaknesses in financial management of the Hospital in the past.

Although our report indicated serious deficiencies at the Hospital, our recommendations have been addressed promptly and thoroughly by management and the Board. There was a similar reaction to the recommendations of the Department of Health and Fitness concerning the monitoring and control of the partnership agreements with Path Scientific Research Limited.

Major changes at the Hospital since the summer of 1988 have demonstrated that the Department of Health and Fitness and the Hospital have made a commitment to solving the Hospital's problems. Changes in senior management of the Hospital, the approval of a new financial information system, and a move towards a more independent status for the Hospital are all tangible indicators of this commitment.

Significant progress is being made in overcoming the financial management problems of the Hospital. It does, however, take time to see the results of the changes when the organization is as large and complex as the Victoria General Hospital. Many of the initiatives depend on the implementation of the new financial information system which will not be completely operational for another two to three years.

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SPECIAL DEPARTMENTAL REVIEWS

Introduction

Each year this Office performs broad scope reviews in certain areas of departments of government. These reviews may cover selected activities of a department, or the review of an activity or function on a multi-department or government-wide basis. Certain of these areas or functions, which are subject to a special audit review by this Office, are scheduled on a basis of once every three to five years. Others are subject to review less frequently.

During the past year 4 different types of special audit reviews were conducted, which in total comprised 14 audit assignments. There were 5 multi-departmental assignments:

Computer Related Audits:
Microcomputer Resources
Systems Maintenance Controls

Departmental Expenditures

Grants and Assistance

Vehicle Usage

We performed 5 in-depth reviews in departments of government:

Department of Consumer Affairs — Amusements Regulation Board, Financial Institutions, Insurance and Fire Prevention, and Orderly Payment of Debts

Department of Government Services — Client Services, Telecommunications, and other Revenues and Expenditures

Department of Health and Fitness — Commission on Drug Dependency

Department of Health and Fitness — Community Health Services

Department of Lands and Forests — Forest Protection, Land Services, and Parks and Recreation

We also performed follow-up reviews to 3 previous special audits:

Computer Related Audits — three items from 1988

Department of Finance — Provincial Tax Commission

Department of Labour — Fire Marshal

One other audit assignment is described in this Section.

Transfer Payment Audits — A preliminary report on assignments at universities and school boards

These special departmental reviews, as distinguished from our financial statement and compliance audits, focus on an evaluation of matters pertaining to the administration and management of the particular activity or function under review.

Computer Related Audits Follow-Up to 1988 Reviews

Summary

Data Centre Password Access Security — In our 1988 Report, we summarized the results of a preliminary review of the Access Control Facility (ACF2) security package used by the Department of Government Services, Systems and Computer Services Division (SCSD) at the Provincial Data Centre. The objective of that assignment was to evaluate the installation and ongoing management of ACF2.

Our report to management was released in October 1988. It included a number of recommendations for improvement. Follow-up of this assignment during 1989 indicated that action to deal with our recommendations is planned, but little has actually been done. Until our recommendations are dealt with, the Province is assuming a higher level of control risk than is desirable.

Department of Finance, Trusts and Debt Management Systems — In our 1988 Report, we summarized the results of our evaluation of the investment management and debenture administration computerized information systems at the Department of Finance. We concluded that the processing controls were adequate. However, we made recommendations for improvements in certain general environmental control areas.

Department management is to be commended for the action taken to improve the level of control over these systems. However, a number of specific improvements recommended remain to be fully addressed. We note that management has plans to address these outstanding matters.

Registry of Motor Vehicles — In early 1988, the Registry of Motor Vehicles implemented a new on-line licensing and registration system. Problems encountered during the implementation of the new system resulted in delays in processing transactions, depositing funds received, and performing certain account balancing and reconciliation procedures.

This Office had planned a detailed review of the new system in 1989. At the request of Department management, the assignment was deferred pending completion of efforts to resolve the various accounting and control deficiencies. We hope to perform a detailed review of the system during the next year.

Introduction

In previous years, this Office has reported the results of our audits of computerized information system controls. These assignments are carried out in

departments and agencies where computerized information systems are used for accounting, financial, and other management-related activities. They include the review and evaluation of general environment and processing controls.

The review of general environment controls examines procedures for the management and use of computer resources covering areas such as:

— organization of information systems activity;

— controls over development and maintenance of systems;

— controls over the operation of systems, processing of data, and security of computer resources; and

— documentation of systems and programs.

The review of processing controls covers specific procedures, whether computerized or manual, for the individual systems. These controls are intended to ensure the completeness and accuracy of the data processed, as well as the adequacy of authorizations and audit trails.

Our evaluations of general environment and processing controls are based primarily on the control objectives and minimum control standards as outlined by the Canadian Institute of Chartered Accountants in its publication "Computer Control Guidelines".

Most of our regular assignments include the review of selected components or functions of computerized information systems. Where practical, for audit planning and reporting purposes we have integrated the review of computerized information systems controls with our coverage of other areas.

Follow-up Comments from 1988 Report

Data Centre Password Access Security — In information processing environments, password access security provides the primary technique to control or restrict access to information systems. The purpose is to ensure that all access to information systems is authorized and in accordance with established policies and procedures. The effectiveness of the controls depends both on their technical or design characteristics, and the manner in which they are managed.

In last year's Report, we summarized the results of a preliminary review of the Access Control Facility (ACF2) security package used by the Department of Government Services, Systems and Computer Services Division (SCSD) at the Provincial Data Centre. The objective of that assignment was to evaluate the installation and ongoing management of ACF2. Responsibility for these functions rests with SCSD.

ACF2 provides the primary password access security over the information systems and resources at the Data Centre. The package provides access control over both on-line and batch processing. There are more than 1300 authorized users with varying levels of access to the information and resources at the Data Centre.

Effective management and control of ACF2 is critical to maintaining an adequate level of access security and segregation of duties for the information systems processed at the Data Centre.

Our overall conclusion was that the installation and administration of ACF2 resulted in a reasonable level of access security. However, we made recommendations for improvement to administrative policies and procedures which, in our view, should enhance the level of control.

Our report to management as a result of that assignment was finalized and released October 31, 1988. It included a number of observations, and 14 recommendations for management's consideration.

Inquiries of SCSD management as to the status of our recommendations indicate that while action or efforts are planned, limited action has taken place. The following summarizes the status or comments received.

- The organizational implications and changes associated with certain of our recommendations were being assessed, but other department priorities resulted in this process being deferred.

- Action to address certain of our recommendations has been deferred pending establishment of an independent security administration function.

- Position descriptions of staff involved in the ongoing administration and maintenance of ACF2 have been in the process of being updated for some time.

- A review and re-design of the ACF2 control forms and procedures is planned.

- Management considers the current practices, with respect to the use and control of special ID's by SCSD staff for emergency programming activities, to be adequate. They will be formalizing their internal policies and guidelines in this area as we recommended.

- Management noted that all access is logged by ACF2. They also indicated that it is not practical to have SCSD security administration or user management involved in the subsequent review and authorization of the use of these special ID's. However we believe that, since these ID's can be used to initiate changes directly to data files, SCSD security administration and user management should monitor their use closely.

We are satisfied that SCSD management is committed to addressing our recommendations. However, in our view, until they are dealt with the Province is assuming a higher level of control risk than is desirable. Therefore, we re-emphasize that for information systems processed at the Provincial Data Centre, management should, where cost-effective, address our specific recommendations for improvement of the administration and maintenance of ACF2 and password security generally.

Department of Finance, Trusts and Debt Management Systems — In last year's Report we summarized the Results of our evaluation of the investment management and debenture administration computerized information systems of the Department of Finance, Trusts and Debt Management Division.

Overall, we concluded that the processing control procedures relating to Trusts and Debt Management's computerized information systems were adequate. However, we made recommendations where, in our view, improvements were required in certain general environmental control areas.

Department management is to be commended for the action taken to date to improve the level of control over these systems. However, management indicated that although a number of specific improvements recommended remain to be fully addressed there are plans to do so. The following summarizes management's comments.

- We recommended that passwords be changed at least every two months. It was indicated that passwords are now being changed twice a year. In our view, a more frequent changing of passwords would be appropriate, and result in an improved level of control. Management has plans to address this matter during 1990.

- As recommended, a new password access security system was implemented on the Department's minicomputer. However, the Department's computer was subsequently upgraded, and an updated version of the password access security system will not be available until mid-1990.

- We recommended that the capabilities of the programmers/analysts to access production programs and data files be restricted to ensure an appropriate segregation of duties. This has not yet been done due mainly to the fact that until recently the systems were still under development. Changes will be made to restrict access capabilities of the programmers/analysts.

- We recommended that contingency procedures be developed for the investment management system users. The Department has plans to review its existing disaster recovery and contingency procedures. However, at this time their assessment is that no additional contingency procedures are required for this system.

Registry of Motor Vehicles — In early 1988, the Registry of Motor Vehicles implemented a new on-line licensing and registration system developed by a project team consisting of Registry, Government Services, and external consulting staff. The Registry receives and records in excess of $40 million of license and registration fees each year, plus $10 million in Health Services Taxes.

The new system had a significant impact on all existing procedures and controls. Problems encountered during the implementation of the new system resulted in delays in processing transactions, depositing funds, and performing certain account balancing and reconciliation procedures.

There were also difficulties in establishing a proper March 31, 1988 year end cut-off of cash and revenues, which required additional audit efforts by both the Province's external auditors and the Department of Finance's internal audit staff.

In 1988 a study of the new system and its implementation was conducted by a joint team consisting of these two audit groups. As a result of that study, a member of Finance's internal audit group was seconded to the Registry to coordinate and assist in the efforts to rectify the accounting and control deficiencies.

This Office had planned a detailed review of the new licensing and registration system to be conducted in 1989. However, at the request of management of the Department of Transportation and Communications, the assignment was deferred pending completion of efforts to resolve the various accounting and control deficiencies.

A review of the status reports issued to the Deputy Minister of the Department of Transportation and Communications from Finance's internal audit staff seconded to the Registry indicates that progress has been made in addressing certain of the deficiencies identified. However, a number of control and procedural problems are not fully resolved.

Because of the large amount of public funds processed through this system, every effort should be made to resolve any significant accounting or control deficiencies as soon as possible. Also, since the Registry's control systems have not been subject to audit by this Office for a number of years, a detailed review and evaluation will be scheduled next year.

Computer Related Audits
Microcomputer Resources

Summary

There are more than 1100 microcomputers in use in the departments and agencies of the Province. We completed a government-wide review of the acquisition, use, and control of microcomputer resources.

Objectives — The objectives of our assignment were to determine if there are adequate policies and standards to control their acquisition and use; and to assess whether microcomputer resources are being adequately controlled.

Findings and Conclusions — The following are our principal findings from this audit:

- The authorization and acquisition of microcomputer resources were found to be well controlled through Management Board's EDP Advisory Committee (EDPAC).

- Formal policies relating to the use of microcomputer resources need to be defined by each department and communicated to all staff concerned.

- Management Board, through the EDPAC, should provide additional guidance and assistance to ensure the implementation of adequate and consistent policies and practices on a government-wide basis.

Introduction

There are more than 1100 microcomputers in use throughout the departments and agencies of the Province. These resources are being used for a variety of purposes ranging from stand-alone systems to direct communication with other computers. There is also a variety of systems ranging from financial to scientific applications. Some departments are heavily dependent on these resources.

We completed a government-wide review of the acquisition, use, and control of microcomputer resources. The objectives of the assignment were to determine if there are adequate policies and standards to control their acquisition and use; and to assess whether microcomputer resources are being adequately controlled.

At the outset of the assignment we had to determine criteria against which to assess the activities of the individual departments. Since there is no generally accepted standard reference source dealing with microcomputer controls, we developed criteria, along with appropriate questions and procedures, from a number of sources.

Twenty-five departments or agencies, including the Systems and Computer Services Division (SCSD) of the Department of Government Services as a separate agency, were surveyed and assessed for compliance with the following criteria:

- There should be formal policies and standards relating to the acquisition, use, and control of microcomputer resources.
- There should be controls to ensure that microcomputer resources are adequately controlled and protected from loss or misuse.
- There should be procedures to ensure employees are adequately trained in the use and control of microcomputer resources.
- There should be controls to ensure the integrity of microcomputer information systems and that access to information is appropriately restricted.
- There should be procedures to ensure that resources have been identified and are available to assist users in resolving processing problems.
- There should be procedures to ensure that software copyright requirements are being adhered to and that no unauthorized software is in use.

Overall Conclusions

The authorization and acquisition of microcomputer resources were found to be well controlled through Management Board's EDP Advisory Committee (EDPAC) process requiring the development of Long Range System Plans and approval through the annual budgetary process.

However, formal policies relating to the use of microcomputer resources need to be defined by each department and communicated to all staff concerned. Policies should be tailored to the specific needs of each department, but at a minimum must

address the control concerns contained in Chapter 6 of Management Manual Bulletin 302 — Government Systems Overview. Further guidelines as to the contents of the departmental policies and standards should be provided by the EDPAC.

Observations

The following is a summary of the more significant observations resulting from our survey of the individual departments.

- Only the Department of Government Services, including SCSD, has formally approved policies in place to address the specific uses and controls over microcomputer resources.

  Eight other departments have policies in draft form awaiting review and approval by senior management. Five departments have been relying on periodic internal memos while the remaining ten have not addressed this matter.

  All departments should develop and implement policies and standards to control the use of microcomputer resources. Guidelines and assistance should be provided through the EDPAC to ensure an adequate and appropriately consistent level of control throughout government.

- Ten departments allow employees to bring their privately owned computers to the job site to assist in the performance of their duties. We were informed of 26 instances where employees are now using their own computers at the job site.

  A policy should be developed and implemented on a government-wide basis to prohibit any long-term use of privately owned microcomputer resources.

- Eleven departments indicated that they have formal programs to train employees in the specific tasks to be performed on microcomputers. Fourteen departments have no formal programs.

  Departments should encourage and support, where appropriate, the microcomputer training needs of employees.

- Nine departments have not formally addressed the need for controls over the integrity of data maintained on, or results from, their microcomputer systems.

  Departments should review their microcomputer based information systems with a view to identifying and evaluating the risks to which these systems may be exposed. Control procedures should be in place to provide reasonable assurances of the integrity and security of these information systems.

- There are no formal criteria or guidelines to assist in evaluating the need for maintenance contracts.

  Such criteria or guidelines should be established to assist departments in their decision to use either maintenance contracts or payment for actual service time and materials.

Concluding Remarks

From the foregoing commentary on the acquisition, use, and control of microcomputer resources the following overall comments emerge.

- There is a variety of microcomputer resources in use across government. Some departments are heavily dependent on these resources, while other departments are in the early stages of adapting to this technology.

- Policies and standards need to be improved and formalized in most departments to ensure the effective use and control of microcomputer resources.

- Management Board, through the EDPAC, should provide additional guidance and assistance to ensure the implementation of adequate and appropriately consistent policies and practices on a government-wide basis.

Computer Related Audits
Systems Maintenance Controls

Summary

The ongoing integrity of the Province's information systems depends to a large extent on the proper approval, testing and documentation of changes to the programs making up these systems. We completed a review of the systems maintenance controls over changes to information systems operated at the Provincial Data Centre. Responsibility for this function is shared by the Systems and Computer Services Division (SCSD) of the Department of Government Services and various user departments.

Objective — Our objective was to assess the adequacy of procedures used to control program changes to significant information systems operating at the Provincial Data Centre.

Findings and Conclusions — The following are our principal findings and conclusions from this assignment.

- Where SCSD is responsible for the program change process, the procedures are adequate for documenting, scheduling and reporting changes to information systems. However, procedures for preventing unauthorized changes to information systems should be improved.

- On the basis of a review of six departments, we found that adequate procedures exist to document, schedule and report planned changes to information systems. However, we found that no department had adequate procedures to prevent unauthorized changes to information systems; several instances where there were no procedures to ensure that only authorized, tested and documented changes are accepted into the production environment; and four with no procedures to control emergency changes.

- We believe that the Department of Government Services, through SCSD, has an important role to play in ensuring that user departments implement cost-effective controls over their information systems. SCSD should play a significant role in establishing and monitoring policies and standards relating to the use of all Provincial Data Centre resources.

Introduction

Computerized information systems usually consist of a number of individual programs which have controls and procedures (e.g. edit tests, calculations, and reports) built into them. Information systems are not static and are subject to change and revision.

The Province invests significant resources in its information systems and the overall integrity of them must be adequately protected. All changes to the individual programs that make up these systems must be properly approved, tested and documented. Recordkeeping errors, incorrect management information, or opportunities for fraud could result if incomplete, inaccurate or unauthorized changes are made to information systems.

We completed a review of the systems maintenance controls over changes to information systems processed at the Provincial Data Centre (PDC). Our objective was to assess the adequacy of procedures used to control program changes to significant information systems operating at the PDC. Responsibility for this function is shared by the Systems and Computer Services Division (SCSD) of the Department of Government Services and various user departments.

The criteria used for evaluation purposes were based on the minimum control standards published in the Canadian Institute of Chartered Accountants "Computer Control Guidelines". We assessed the program change process to determine if there were adequate control procedures for:

- documenting and scheduling planned changes to information systems;
- initiating authorized changes;
- ensuring that only authorized, tested and documented changes to information systems are accepted into production;
- reporting significant planned systems changes to management and to the users affected;
- allowing for and controlling emergency changes; and
- preventing unauthorized changes to information systems.

Overall Conclusions

In order to protect the integrity of information systems processed through the PDC, procedures should be enhanced to improve the level of control over changes to

programs. Also, in our view, it is essential that SCSD provide a leadership role in ensuring that the appropriate improvements are initiated.

Where SCSD is responsible for the program change process:

- Procedures are adequate for:
  - documenting and scheduling planned changes to information systems;
  - initiating authorized changes;
  - reporting significant planned system changes to management and to the users affected; and
  - allowing for and controlling emergency changes.
- Procedures should be improved for:
  - ensuring that only authorized, tested, and documented changes to information systems are accepted into production; and
  - preventing unauthorized changes to information systems.

Where departments have been assigned the ongoing responsibility for the development or maintenance of information systems, improvements should be made to controls over the program change process.

Observations

Policies and Guidelines — We would have expected that policies and guidelines relating to systems maintenance, including the program change process, would be adequately documented, summarized, and communicated to all parties concerned.

The results of our review indicate that policies and guidelines in this area are addressed in at least four SCSD manuals, not all of which are distributed to every user. Due to the fragmentation of coverage in the manuals it is difficult to determine if there are in fact policies and guidelines on certain matters. As a result users may not be aware of all the policies and guidelines, or of their responsibilities relating to them.

SCSD management are in the process of revising their policies related to the program change process. It has sometimes been indicated that SCSD is not fully responsible for establishing prescribed policies or control standards for all Provincial Data Centre users, and monitoring compliance with them. However, it is our contention that SCSD should play a significant role in both establishing and monitoring policies and standards relating to all use of Provincial Data Centre resources.

Specific Control Concerns — Based on our review of the existing program change process, improvements for management's consideration have been recommended. The following summarizes the more significant items.

- An independent review and verification of program changes should be performed.

- The integrity of program code should be verified each time the code is accessed.

- Procedures should be in place to ensure that access to program code under development or maintenance is authorized.

There will be costs, in terms of increased expenses and/or reduced efficiency, associated with the implementation of improved control procedures. Depending on the costs and benefits associated with implementing an improved level of control, it may be appropriate for certain procedures to be performed on a periodic rather than a full-time basis.

Decentralized Responsibilities — For certain major new or existing information systems, responsibility for system maintenance, including the program change process, has been assigned to user departments. We extended the original scope of our review to include a survey of significant systems maintained by six user departments.

The results for the six departments are summarized as follows.

- All have adequate procedures to:

  — document and schedule planned changes to information systems; and

  — report planned changes to information systems management and to users affected.

- None have adequate procedures to prevent unauthorized changes to information systems.

- Three do not have adequate procedures to ensure that:

  — only authorized changes are initiated; and

  — only authorized, tested, and documented changes are accepted into the production environment.

- Four do not have adequate procedures to control emergency changes.

We note that certain departments have implemented controls to offset or reduce the risk associated with the deficiencies noted. However, in such situations the integrity of the program code is still at risk.

Concluding Remarks

The following overall comments emerge from our review of systems maintenance controls over program changes to information systems processed at the Provincial Data Centre.

- The Province invests significant resources in its information systems, and the overall integrity of them must be adequately protected. Adequate procedures should be in place to prevent or detect unauthorized changes to information system progams.

- Policies and procedures should be enhanced to improve the level of control over changes to information systems processed at the Provincial Data Centre.

- In our view, the Department of Government Services, through SCSD, has an important role to play in ensuring that user departments implement cost-effective controls over their information systems. SCSD should determine what additional policies, guidelines, or procedures are needed to improve the overall level of control for systems processed at the Provincial Data Centre.

Department of Consumer Affairs

Summary

Background — During 1987 we performed an audit of selected areas within the Debtor Assistance Section, and the Amusements Regulation Division of the Department. We concluded that the Department was administering both of these divisions well, and was using an appropriate result indicator system to measure performance in these divisions.

During 1989 we examined four areas of the Department: Orderly Payment of Debts; Financial Institutions and Revenue Division; Amusements Regulation Board; and Insurance Premiums and Fire Prevention Tax Revenues.

Objectives — Our major objectives were to assess the adequacy of:

— the systems and procedures for the Orderly Payment of Debts Program;

— the cash handling procedures from a control standpoint in the Financial Institutions and Revenue Division; and

— the systems of control over amusement tax revenues.

We also followed up deficiencies in the Insurance Premiums and Fire Prevention Tax Revenues reported in prior audits.

Findings and Conclusions — The following summarizes our comments and conclusions.

- Follow-up procedures for accounts in arrears in the Orderly Payment of Debts Program were deficient.

- Controls over cash receipts in the Financial Institutions and Revenue Division were adequate.

- We recommended administrative and legislative changes to the process for inspecting cable television companies.

Introduction

The Department of Consumer Affairs deals with consumer and corporate activities in the market-place. Through licensing and regular inspections, the

Department regulates certain industries including real estate, debt collection practices, film and video distribution, credit unions, trust companies, insurance, direct sellers and funeral and cemetery services. Through its legislation covering tenancy, the Department provides remedies for tenant/landlord disputes, the review of rent increases, and condominium incorporations.

During 1987 we performed audit reviews of selected areas within the Debtor Assistance Section, and the Amusements Regulation Division of the Department. The objectives of this assignment were to obtain current information on the organization, policies and practices of these divisions, and to review them from a managerial standpoint to evaluate the appropriateness and adequacy of their management practices. Three areas were selected for further examination. These were result indicators, consumer education, and administration of the trust fund. It was our conclusion that the Department was doing a commendable job in administering both the Debtor Assistance Section and the Amusements Regulation Division, as well as using an appropriate result indicator system to measure performance in these divisions.

During 1989 we selected four areas for examination: Orderly Payment of Debts, Financial Institutions and Revenue Division, Amusements Regulation Division, and Insurance Premiums and Fire Prevention Tax Revenues.

Orderly Payment of Debts

The objectives of our review of the Orderly Payment of Debts Program were to determine whether there were adequate systems to ensure all trust monies received and disbursed were properly accounted for, and that appropriate follow-up procedures were in effect for debtors with payments in arrears.

Our overall conclusion was that accounting for trust monies received and disbursed was adequate but that follow-up procedures for accounts in arrears were inadequate. We recommended improvements in the monthly status report of accounts in arrears, the six-month debtor review process, and certain other administrative matters.

Financial Institutions and Revenue Division

At present, the Division processes only tax revenues received pursuant to the Insurance Premiums Tax Act, Fire Prevention Act, and the Theatres and Amusements Act. However, a major reorganization within the Department in 1988 includes plans to centralize the receipt and processing of all cash receipts in the newly created Financial Institutions and Revenue Division.

The objective of our review was to determine whether the Division had adequate cash handling procedures from a control standpoint. It was our conclusion that controls over cash receipts were adequate.

Amusements Regulation Division

The Amusements Regulation Board is responsible for the classification of motion pictures and video cassettes. The Division also licenses and collects tax from various places of amusement, as outlined in the Theatres and Amusements Act and Regulations.

The objectives of our review were to determine the adequacy of systems of control over the receipt and recording of amusement tax revenues, the collection and remittance of amusement taxes by cable television companies, and the procedures to follow up overdue taxes and returns.

It was our conclusion that the Division has adequate systems of control over the receipt and recording of amusement tax revenues. We were satisfied with procedures used to follow up overdue accounts receivable and returns.

The systems of control over amusement taxes remitted by cable television companies were deemed adequate. However, the Department should consider legislative amendments to clarify its authority to conduct inspections of cable television companies. It should also consider standardizing procedures and documentation for the inspection of cable television companies.

Insurance Premiums and Fire Prevention Tax Revenues

Our review of this area was a follow-up to previous audit findings where significant errors had been noted. Accordingly, we tested the accuracy and completeness of accounts receivable and accounts payable balances for both insurance premiums and fire prevention taxes as at March 31, 1988.

Our audit tests did not reveal any significant errors in the year-end accounts receivable and payable balances. Steps taken by the Department to remedy previously noted deficiencies were successful.

Department of Finance
Provincial Tax Commission

Summary

Background — The Provincial Tax Commission comprises two divisions: the Gasoline and Diesel Oil Tax Division, and the Health Services Tax Division. In each of the past two years we have conducted reviews in the Commission, concentrating on matters relating to account monitoring, the appeal process, certain functions of the Gasoline and Diesel Oil Tax Division, and other related matters.

Objectives — The objectives of the current year's assignment were:

- to determine the current status of recommendations from our previous reports relating to the systems and controls for collection and recording of tax revenues; and

- to assess management controls within the audit section of the Gasoline and Diesel Oil Tax Division.

Findings and Conclusions — The principal ones were:

- There is a need for improvement in monitoring out-of-Province accounts to achieve a more timely and effective collection of taxes.

— Although legislation has been enacted to establish an independent appeals board, it has not as yet become operational.

— There appear to be unreasonable delays in the processing of some appeals.

— Improvements should be made in the management of the audit section of Gasoline and Diesel Oil Tax with respect to time standards and filing systems.

Introduction

The Provincial Tax Commission, within the Department of Finance, comprises two Divisions: the Gasoline and Diesel Oil Tax Division, and the Health Services Tax Division. The Health Services Tax Division carries out responsibilities for the assessment and collection of tax revenues under the Health Services Tax Act. These revenues amounted to over $660 million for the March 31, 1989 fiscal year. The Gasoline and Diesel Oil Tax Division is responsible for the assessment and collection of gasoline and diesel oil taxes, and these were in excess of $121 million for the same period.

The Health Services Tax Division performs such tasks as the registration of vendors, other taxpayers, and farmers and fishermen; the provision of information services to vendors and taxpayers; monitoring and collection activities regarding outstanding accounts receivable; auditing of vendors and taxpayers to ensure compliance with the Health Services Tax Act and the Regulations; and various related administrative tasks.

The Gasoline and Diesel Oil Tax Division performs similar tasks relating to the collection of taxes on gasoline and diesel oil.

In each of the previous two audit years we have conducted fairly extensive reviews of the activities of the Health Services Tax Division. The objectives were to determine whether the Commission had adequate systems and controls to ensure complete and adequate collection and recording of tax revenues in accordance with applicable legislation.

Our 1989 audit in the Health Services Tax Division had objectives similar to those of the previous two years. In the Gasoline and Diesel Oil Tax Division our objective was to assess the management controls in the audit section.

The observations from this audit are discussed under four captions.

Account Monitoring
Appeal Process
Other Matters
Gasoline and Diesel Oil Tax Division

Health Services Tax Division

Account Monitoring

In 1987 our audit indicated the need for improvement in the collection procedures of the account monitoring section because of inconsistencies in collection action criteria, inadequate information on overdue accounts, and inadequate handling of accounts with extended terms. Our audit review in 1988 provided evidence of major

improvements in these areas of deficiency with respect to account monitoring. On the basis of this year's audit, we can repeat that these improved collection procedures are still in effect and appear to be operating reasonably well.

In 1988 we observed the need for formalization of the guidelines being used for accounts receiving extended payment terms, and a more formal approval process for these. This year's audit results indicate major improvements in the administration and controls over accounts with extended payment arrangements.

On the basis of our 1989 audit we determined that there was a need for improvement in monitoring out-of-Province accounts to achieve a more timely and effective collection of taxes.

Appeal Process

In 1987 we recommended that Government consider the feasibility of establishing an independent body for reviewing and deciding upon Health Service Tax appeals. Although we could find no fault with appeal decisions rendered by the Minister of Finance, the perception of independence and objectivity in these matters, in our view, would be best served by having someone, other than those responsible for the administration of the Act, assigned the task of dealing with appeals.

In May 1989, there was a change in legislation which established an Independent Appeals Board with the responsibility of deciding upon all appeals within four months of the appeal being initiated. However, a chairperson and board members have not yet been appointed. Accordingly, full implementation of our 1987 recommendation was not effected by the time we finished our audit in late 1989.

We noted that of the 30 appeals initiated during the period April 1, 1988 to March 31, 1989, only 4 were settled within 6 months. Sixteen appeals were settled in 7 to 15 months, and 10 had not been settled at the time of our review in early November 1989. In our opinion a prompt appeals process is required to ensure timely collection of taxes and the maintenance of good relations with vendors.

Other Matters

On the basis of our review of the administration of the tax collection function at the Provincial Tax Commission there were several other areas where we had recommendations. These involved the need to arrange with the banks a means of reducing the time lag between payment of vendors' taxes at the banks and their deposit with the Province; better monitoring of taxes due on casual returns — those of individuals and corporations not registered with the Commission; and better reconciliation procedures between the records of the Registry of Motor Vehicles and those of the Commission.

In addition we noted that the general ledger balance of the allowance for doubtful accounts was understated by $1,643,441 because of two posting errors. Also there is no reconciliation performed between the Commission's total of doubtful accounts and the Province's general ledger account balance. Accordingly, we have recommended that there be a year-end reconciliation of the allowance for doubtful accounts in the general ledger, and the amount requested to be set up by the Account Regulation Section of the Health Services Tax Division.

Gasoline and Diesel Oil Tax Division

The objectives of our 1988 audit of this Division were an assessment of the adequacy of controls over cash remittances, and a review of the areas of account monitoring and audit. We concluded that controls were adequate for receiving tax remittances and monitoring tax instalments, and that there were no significant weaknesses in the Division's procedures for audit of taxpayers.

This year our audit concentrated on an assessment of the management controls within the Audit Section being used to promote more effective audit results. Our findings indicated that:

- there were no time standards for the various types of audits performed by the Division;
- there was no consistent overall filing system with adequate referencing; and
- there were no documented standard procedures for organizing audit working papers within individual audit files.

It is our understanding that all three of these deficiencies are being addressed and improvements should be implemented by March 31, 1990.

Government-Wide Departmental Audit

Summary

Background — We developed a new approach to our audits of departments and introduced it in 1989. This approach resulted in the consolidation of most departmental audit efforts into one large audit assignment. Our examination covered the period April 1, 1988 to March 31, 1989.

This audit included revenues and recoveries, current expenditures and capital expenditures. There are certain activities which, because of their importance and size, are audited on an annual basis apart from this government-wide audit.

Objectives — We expect that performing audit planning, system and transaction testing, and audit reporting on a government-wide basis will achieve:

- considerable time savings in the conduct of our audits;
- more effective audit efforts and provide a better appreciation of performance at the department level; and
- better satisfaction of the requirements of Section 7 of the Auditor General Act.

Conclusions — The overall conclusion was that generally the accounting controls are adequate and are being complied with, and that staff are performing their accounting related duties well.

Many of the findings from this examination were typical of those from previous departmental audits such as: inadequate segregation of duties, inadequate verification of certain types of transactions, a lack of timely reconciliations, and instances of inadequate documentation.

Introduction

In past years our approach to the audit of departments consisted of identifying areas of audit significance, and conducting audits in each area as separate projects. In 1988 this involved the performance of over 40 audits in government departments, and also two special audits dealing exclusively with payroll and expenditures.

There were two compelling reasons for a decision to review our audit methodology regarding department audits. First, resources committed to these audits were excessive given the high quality of accounting systems and controls and the level of compliance with legislation and policies. Second, our broad scope audit activities, in several areas including departments, were requiring more audit time than we had available. Moreover, expanded efforts in the area of broad scope reviews should be of far greater service to the departments and to the Legislature.

After considerable study, including a visit to the Office of the Ontario Provincial Auditor, we developed a new approach to our audits of departments and introduced it in 1989. Our examination covered the period April 1, 1988 to March 31, 1989.

This new approach results in the consolidation of all departmental audit efforts into one large audit assignment. We anticipate that performing audit planning, system and transaction testing, and audit reporting on a government-wide basis will result in considerable time savings. Audit efforts should become more efficient and effective with the consolidation of similar audit activities. We shall be able to satisfy the requirements of Section 7 of the Auditor General Act in a better manner than previously.

Our government-wide audit relies on detailed analysis of financial results and trends, and requires that reviews and testing at departments be conducted on a cyclical basis. Audit assurance will be analyzed and sought in a more technical and effective manner, and materiality decisions will be reached on a government-wide basis.

The Audit Process

Audit Objectives — The general audit objective of the Government-Wide Departmental Audit is to obtain sufficient and appropriate audit evidence to support an opinion as to:

- the accuracy and completeness of accounting records;
- compliance with relevant legislation and policies; and
- the adequacy and proper operation of financial systems and controls.

To meet this objective we defined the following detailed audit goals:

— to verify that revenues and recoveries are complete, accurately stated, and disclosed in accordance with stated accounting policies;

— to verify that current and capital expenditures have occurred, are accurately stated, and are disclosed in accordance with stated accounting policies;

— to verify that revenues and recoveries have been collected, and expenditures made, in accordance with relevant legislation and policies;

— to verify that funds have been expended for the purposes for which they were appropriated; and

— to review financial systems and controls to ascertain their adequacy to ensure proper control over receipts, revenues and recoveries, purchases and disbursements, and capital assets.

Audit Scope — The audit consists of a number of components, each addressing different audit goals. In order to ensure good audit coverage, and to provide for as efficient an audit as is possible, some of the audit areas are cycled. Other areas are addressed in each year's audit because they represent a large portion of the Province's total revenues and expenditures.

For 1988-89 about 96% of revenues were collected by the Department of Finance, and 78% of recoveries were collected by three departments. Because of this high concentration of revenues and recoveries in a few areas, they are examined each year.

Expenditures for payroll, current expenditures, and capital expenditures are audited in this government-wide audit. Accordingly, expenditures in these three areas will be subject to testing in all departments of Government.

We have identified 28 divisions or programs in government departments that are significant for audit purposes, together comprising 97% of total current expenditures. It is our objective to examine each of these areas for compliance with legislation and policies over a four-year period. Six of them are considerably larger than the others, and accordingly will be reviewed annually. These six comprise 73% of total current expenditures.

Reviews of financial systems and controls will be performed in the central accounting and administrative division of each government department over the four-year cycle.

Audit Observations

This year's audit resulted in numerous findings and recommendations that were reported to the departments concerned. Many of the findings were typical of the results of previous departmental audits, such as:

— inadequate separation of incompatible accounting duties;

— purchase orders not being completed in the proper fashion;

— inadequate verification in the data entry function;

— reconciliations of various kinds not being performed on a timely basis, or not being done at all; and

— accounting documents not being approved according to policy.

The overall conclusion derived from our audit, which encompassed a review of both accounting controls and actual transactions in departments, was that generally the accounting controls are adequate, and are being complied with. Staff are performing their accounting related duties well.

There were several audit observations, 11 in total, which warrant reporting. In all cases the departments concerned have been advised of our audit findings, and have been provided with recommendations from our Office suggesting corrective action. We shall be performing follow-up reviews in all cases in the 1990 audit year to determine whether the deficiencies have been corrected.

- Inadequate separation of cash handling duties for cafeteria, bookroom, cosmetology, dentural shop, rink and pool revenues (Department of Advanced Education and Job Training — I.W. Akerley Campus of the Nova Scotia Community College).

- One situation where a day care centre was permitted to operate after expiry of a conditional license (Department of Community Services).

- Inadequate monitoring of collections for overpayments of day care subsidies to parents of children attending day care centres (Department of Community Services).

- Need for better verification procedures for claims from municipalities for costs of operating rehabilitation centres (Department of Community Services).

- Four instances of expenditures being approved at the departmental level by persons other than those authorized and on file at the Department of Finance (Department of Finance).

- Twenty-eight instances of journal vouchers being approved by persons not authorized and on file. Twenty-five of these were due to there being no record of authorized signing officers from the Department of Transportation and Communications on file at the Department of Finance (Department of Finance).

- Incomplete and inaccurate records for capital assets (Department of Health and Fitness).

- No monitoring procedures for grants with conditional repayment terms, under the Special Assistance Program, to ensure compliance with conditions of the grant (Department of Industry, Trade and Technology).

- In the case of grants to two companies under the Special Assistance Program, one of which received $6.2 million, the requirement to provide the Department with audited financial statements was not complied with (Department of Industry, Trade and Technology).

- Grants under the Market Opportunities Program may be subject to partial or full repayment based upon the terms of the agreements. Although the records of recipients are subject to audit by the Department, no audits have been conducted (Department of Industry, Trade and Technology).

- Significant critical weaknesses regarding the non-civil service payroll — a matter reported upon in previous Annual Reports (Department of Transportation and Communications).

Certain of the weaknesses outlined above are reported in the article "Reservations of Opinion", page 165.

Department of Government Services

Summary

Background — In 1988 we performed an audit of the Department of Government Services to determine whether general accounting systems and controls were adequate. Our principal conclusions were that billings and recoveries to other departments, although accurate and complete, were not timely; there were serious deficiencies in internal controls over accounts receivable and cash receipts; and there were weaknesses in the systems and controls relating to the Province's capital assets. Late in 1988, we performed a follow-up review and determined that action had been taken to remedy many of these deficiencies.

In 1989, we completed a review of four areas, namely: revenues and recoveries, expenditures, telecommunications, and client services.

Objectives — Our objectives were to assess:

— the controls over revenues and expenditures; and the management of projects by the Client Services Section of the Systems and Computer Services Division of the Department; and

— the adequacy of procedures to ensure that the objectives of the Telecommunications Section were being met in the most efficient manner possible.

Findings and Conclusions — Our principal findings were as follows:

- Although there have been improvements in the timeliness of recoveries, there are still considerable delays.

- Controls over expenditures are adequate.

- There are adequate controls to monitor the efficiency and effectiveness of

telecommunications operations, but the required audit of telephone usage for abuse is not being performed.

- The Client Services Section of the Systems and Computer Services Division has a reasonably effective system for project management although there are some deficiencies.

Introduction

1988 Audit — In early 1988 we performed an audit in the Department of Government Services. The objectives were to determine the adequacy of general accounting systems and controls, as well as to assess systems and controls in a number of other areas. Our principal conclusions were that billings and recoveries to other departments, although accurate and complete, were not timely; there were serious deficiencies in internal controls over accounts receivable and cash receipts; and there were weaknesses in the systems and controls relating to the Province's capital assets.

Late in calendar year 1988 we performed a brief follow-up review and found that:

— closer attention was being given to billings and recoveries, so that most were more up to date;

— additional procedures had been adopted for the handling of cash and the segregation of duties concerning cash transactions;

— there had been an increase in the number of staff responsible for the capital asset function; and

— other staffing enhancements were made in the Department to strengthen performance of its administrative functions.

1989 Audit — During 1989 we completed an audit of the Department for the period January 1 to December 31, 1988 which involved an evaluation of four areas, namely: revenues and recoveries, expenditures, telecommunications, and client services. The objectives of this review were to assess:

— the adequacy of controls to ensure the timely billing of recoverable items;

— the adequacy of systems and controls to ensure all expenditures were authorized, accurately recorded, and made for the purposes appropriated;

— the adequacy of procedures to ensure that the objectives of the Telecommunications Section were being met in the most efficient manner possible; and

— the procedures and controls used in the management of projects by the Client Services Section of the Systems and Computer Services Division of the Department.

Conclusions

Our overall conclusions regarding the first three objectives noted above may be tabulated as follows.

- Although there have been improvements in the timeliness of the billing recovery process, our tests indicate there are still considerable delays involved, and that further improvements are necessary.

- There are adequate systems and controls in place to ensure that expenditures are approved, accurately recorded and made for the purposes intended.

- We concluded that management has adequate procedures and controls to monitor the efficiency and effectiveness of telecommunications operations, but noted that the Nova Scotia Management Manual requirement for an audit of telephone usage for abuse was not being carried out. There seems to be some confusion as to whether this is the role of the Department of Government Services or of particular departments. It is our view that it should be the latter, and the Manual requirement should be clarified.

Client Services

The Client Services Section of the Systems and Computer Services Division of the Department is responsible for providing systems and computer consulting services to government departments and agencies by either rendering the service themselves or hiring external consultants to perform the work. A recovery is made from user departments for time spent on individual projects.

To review the process and procedures the Section uses to perform this function, we assessed whether the Department had the following 11 aspects of a comprehensive project management system in place.

- Assessment of requests from user departments.
- Development of terms of reference for large projects.
- Establishment of target dates and detailed budgets.
- Assignment of qualified staff to the projects.
- Monitoring of incomplete assignments to time and target dates.
- Monitoring of quality of work performance during a project.
- Review of assignment results.
- Review and documentation of time and target date variances.
- Review of monthly project billings.
- Periodic review of all assignments.
- Post-completion quality review.

It was our conclusion that the Client Services Section was utilizing most of the above noted practices, and had a reasonably effective system in place for administration of this function. However, there were some deficiencies and a need for improvement regarding certain of these.

- Time budgets and target dates are not established nor monitored for compliance on a formal basis. Although staff time is accumulated, summarized and reviewed, it is not compared to budget other than on a selective basis.

- Standards for time chargeable for small acquisition projects had not been established to assist management in controlling time charged to these assignments. Management indicated that time standards for small acquisition projects have recently been implemented.

- An annual review of time and target variances on all completed assignments is not being conducted.

- A post-completion quality review program is not in place. Also, there are no procedures or policy manuals available to assist staff in the performance of consulting assignments. However, management has advised that a systems development methodology program, developed by a private consultant, is currently under review for possible implementation.

Grants and Assistance

Summary

Background — Approximately $2.4 billion of the government's operating expenditures for the March 31, 1989 year can be classified as grants and assistance. About $2.0 billion of this represents payments to hospitals, universities, school boards, and municipalities.

We conducted a review which focused on the remaining $410 million in which we examined 33 current and 5 capital grant and assistance programs in 14 of the 22 departments of government. The total value of these 38 programs was $275 million.

Objectives — The objectives of this assignment were:

— to assess the adequacy of existing policies and guidelines over the various grants and assistance programs; and

— to determine the extent of compliance with these policies and guidelines.

Findings and Conclusions — The principal findings and conclusions were:

— Policies and guidelines over the grants and assistance programs are adequate, and staff charged with administering these programs are performing their functions reasonably well.

— Improvements are recommended in certain areas such as the need for formal evaluation of results, the need for better documentation of terms and conditions, and the need for consistency among departments for documentation requirements, terms and conditions, and criteria.

— There is a need for a policy statement establishing government-wide standards for the establishment and documentation of general criteria for the application, review, approval, and control of grants.

Introduction

In 1989 this Office conducted a review of a number of grants and assistance programs in various departments of government. The last such review was performed in 1979. The objectives of the current assignment were to assess the adequacy of existing policies and guidelines over the various grants and assistance programs; and to determine the extent of compliance to these policies and guidelines.

Grants and assistance programs may be classified under three categories:

- Statutory — Those which have been approved by an Act of the Legislature or have received Governor in Council approval.

- Program — Those which are disbursed under a specific program established by a department. These usually relate to a given objective of the department, and are often ongoing in nature with predetermined guidelines.

- Discretionary — Those which are complementary to the function of the department. These do not necessarily relate to a specific program and generally do not have predetermined guidelines and may or may not be ongoing in nature.

Approximately $2.4 billion or 67 percent of the government's operating expenditures for the March 31, 1989 fiscal year were classified as grants and assistance. However, about $2.0 billion of these represent payments to hospitals, universities, school boards and municipalities, and are often termed transfer payments. This audit was not concerned with these transfer payments to other entities for administration and ultimate disbursement. Our audit focused on the remaining $410 million in grants and assistance.

From those comprising the $410 million, we reviewed 33 current and 5 capital grants and assistance programs in 14 of the 22 departments of government. The remaining departments either had no grant programs or they were far less material than those in the 14 departments selected. The total value of the 38 programs which we reviewed amounted to $275 million.

We identified criteria against which to evaluate the policies, guidelines and practices followed with respect to the administration of grants and assistance programs. These may be summarized as:

— the purposes, goals and objectives of the grants or assistance programs should be clearly defined and documented;

— terms and conditions regarding eligibility, reportability, and responsibilities should be established, documented, and conveyed to recipients;

— procedures should be established and documented for the review and approval of applications and required documentation;

— there should be practices and procedures which enable the disbursing department to determine whether the payments were used in compliance with the terms and conditions associated with the grant, and to recover funds in cases of non-compliance;

— there should be a reporting system which provides timely, accurate and useful financial and performance information on payments made; and

— the effectiveness of the program should be assessed on a periodic basis and evaluated against original objectives and intended effects.

Audit Results

We found that most grants and assistance programs have been paid on an ongoing basis for a period of time, and accordingly are more in the nature of statutory or program grants rather than discretionary. The overall conclusions arising from our review follow.

- Policies and guidelines over the grants and assistance programs are adequate, and staff charged with administering these programs are performing their functions reasonably well.

- Improvements are recommended in certain specific areas such as:

  — the need for formal evaluation of results of grants and assistance programs;

  — the need for better documentation of the terms and conditions for recipients, including a clear indication of audit and recovery conditions; and

  — the need for consistency among departments for terms and conditions of grants and assistance, and for required administrative practices relating to all aspects of the granting process.

The more significant audit findings resulting from our review of the 38 grants and assistance programs are presented in the following paragraphs.

- Favourable audit findings were:

  — The grant programs were generally found to have clearly defined purposes and objectives.

  — Grant availability was adequately communicated to interested parties.

— Of the 22 grant programs that had documented criteria for the release of grant funds, procedures had been performed by 20 of these to validate compliance with the terms and conditions of the grant.

— Most grant programs were periodically evaluated for effectiveness, and most were reviewed to determine whether the grant funds were used for the intended purposes (although six had no documentation to support their review).

- Unfavourable audit findings were:

  — Many of the application forms and other communications were not comprehensive enough to properly inform the recipient of all prescribed terms and conditions, especially regarding audit and recovery of funds.

  — Of the 38 programs reviewed, 32 should have generated both financial and performance information. Only 13 programs generated both types of information, with 19 programs producing only financial information.

There were several less significant audit findings, which are tabulated below.

- One favourable audit finding was:

  — Grant applications were generally found to have been reviewed to ensure that they were properly completed, in accordance with established criteria, and that adequate documentation and approval were provided; although this process was not always documented by the reviewer.

- Unfavourable audit findings were:

  — There is a lack of consistency among government departments regarding criteria concerning application, review, and approval of grants, and over controls for the actual disbursement of funds.

  — There is a lack of established criteria specifying the documentary support required for an application.

  — There is a lack of established criteria specifying review procedures for release of grant funds and appropriate documentation.

  — There was often inadequate documentation of the review process by the person conducting the review.

Concluding Remarks

Although on the basis of our audit review we concluded that the various grants and assistance programs were being administered reasonably well, there are several areas requiring improvement.

- Management Board should prepare a policy statement instituting government-wide standards for the establishment and documentation of general criteria for the application, review, approval and control process for grants and assistance.

- Each department should establish specific criteria for their various grant programs covering all aspects of the granting process. These criteria should be formally documented and approved.

- Policies and guidelines necessary to ensure that the specific criteria are adhered to should be established and formally documented at the departmental level and include:

  — the objectives and goals of the program;

  — terms and conditions for eligibility and release of funds;

  — procedures for the review and approval of applications; and

  — assignment of responsibilities for determination of compliance with the terms and conditions of the grant, and for recovery of funds for non-compliance.

- All review procedures performed by department personnel should be adequately documented in the grant recipient's file.

Department of Health and Fitness
Nova Scotia Commission on Drug Dependency

Summary

Background — The Commission on Drug Dependency was created in 1972 under the Drug Dependency Act which came into force that year. This was our first in-depth review of the Commission.

Objectives — Our overall objectives were to determine if reasonable management procedures and controls exist to ensure that the Commission operates in compliance with relevant legislation, and achieves its objectives in an efficient manner.

Findings and Conclusions — Our overall conclusion was that the Commission has instituted many sound management controls and procedures. However, there were deficiencies in the procedures to measure the efficiency and effectiveness of the various programs on a timely basis. The overall management system cannot be considered adequate until procedures are in place to remedy these deficiencies.

Introduction

The Commission on Drug Dependency was created in 1972 under the Drug Dependency Act, which came into force that year. It has approximately 250 employees and a budget of over $10.7 million for the 1989-90 year. The Commission's mandate is to: conduct, direct and promote programs; improve government activities and services; coordinate activities and services to avoid duplication; promote new activities and services to be operated by or under government departments and agencies; and review the policy of legislation and consider methods of improvement.

The Commission is administered through a central office located in Halifax. There are treatment and rehabilitation programs and services delivered through four regional offices in the Province.

This was our first in-depth review of the Commission. Our overall objectives were to determine if reasonable management procedures and controls exist to ensure that the Commission operates in compliance with relevant legislation, and achieves its objectives in an efficient manner. We examined five areas, each of which is described briefly in the following paragraphs. To facilitate our review of the Primary Care and Aftercare programs, we conducted our examination and tests on the Metro/Lunenburg region of the Commission.

Office of the Executive Director

The Office of the Executive Director is responsible for the overall operation of the Commission, including the development of policy, and the planning and implementation of programs in drug prevention, education, treatment and rehabilitation.

Our objectives in this area were to assess the adequacy of the planning process, in particular the strategic plan; the manner in which the Commission attempts to provide its services efficiently and effectively; and the adequacy of the system for performance evaluation.

A strategic plan was developed by the Commission in 1988 to cover the three-year period ending March 31, 1991. The plan is comprehensive in nature and indicates that strategic planning is a priority of the Commission. However, a written report to indicate what was implemented, the results of such implementation, and the reasons for any failure to achieve planned objectives is not prepared for management. According to Commission management, the strategic plan is too new to warrant the performance of a detailed status review. Such review and reporting will be performed in the future.

The Commission has numerous treatment and rehabilitation programs operating at many locations. There seem to be some deficiencies with respect to the timeliness of the development of new treatment procedures. Accordingly, the establishment of a Treatment Coordinator or some other alternative should be considered so that the Commission can respond quickly to new issues as they arise.

The Commission has developed a performance appraisal system which provides staff with an understanding of job requirements and standards for meeting these requirements.

Documentation, Evaluation and Research

The responsibilities of this Division are the development, analysis, and interpretation of data on drug prevention and treatment policies and programs, in order to provide a basis for program evaluation and planning.

Our audit objectives for this area were to determine the adequacy of the information retrieval system for providing data for program evaluation and planning and the adequacy of the controls to ensure that established documentation standards are being met.

The present computerized system used to process data for this Division is very difficult to access. It is inflexible and quite costly for the information it produces. There is no direct systems access available to the Commission, and the method of data entry is time-consuming and does not permit adequate editing at the input stage.

We determined on the basis of a test of 25 patients' charts in the Metro/Lunenburg region that documentation in all files met established standards.

Prevention and Community Education

The Prevention and Community Education Division has the responsibility for providing comprehensive drug information, as well as prevention and community education services. The Division meets its responsibility through a reference library, youth and school education programs, and training services.

Our audit objectives were to review the result indicators used by management to assess the effectiveness and efficiency of its programs; and to determine if other management controls are adequate to ensure programs operate as planned.

We concluded that the Division has adequate management controls to provide for the efficient and effective use of human resources. The result indicators employed by management are adequate, although the information requirements of the Division for its management controls and result indicators should be forwarded and processed on a more timely basis.

Primary Care Program

Primary care enables drug-dependent persons to participate in a supervised program of assessment and withdrawal from alcohol and other drugs. It is also a learning process to assist patients to understand the nature of their condition and become involved in continuing treatment and rehabilitation.

Our audit objectives were to assess the adequacy and reasonableness of the result indicators used by management for this program; and to determine if other management controls exist which allow management to effectively and efficiently control resources.

We concluded that there are adequate procedures in place to enable management to monitor use of resources. While some result indicators are adequate to measure the efficiency and effectiveness of programs, there are two deficiencies.

— Objectives for this program are written in such a way that obtaining reasonable indicators is difficult; accordingly, it is not easy to determine whether program objectives are being met.

— Some result indicators are not easily determined, thus making the data relating to them not wholly reliable.

Aftercare

Commission responsibilities concerning Aftercare programs include the provision of a variety of therapeutic and rehabilitation services, either on an individual, family, or group basis. These also include referral to other agencies when appropriate.

Our audit objectives with regard to these services were to assess the adequacy of result indicators as a means of measuring the effectiveness of the services; to determine whether controls are in existence and operating properly to ensure that information regarding clients is adequately documented; and to determine if management is responding to the changing needs for these services.

Our principal findings in this area can be summarized as follows:

- The Commission identifies new concerns with respect to Aftercare services and implements necessary changes.

- A complete listing of result indicators for Aftercare services is provided annually, but the information does not appear to fully address the efficiency and effectiveness of these services. In addition, the result indicators do not show the linkage between Primary Care services and Aftercare services, nor the demand for outpatient therapist services.

- Documentation standards in use do not ensure that all treatment issues are noted in patient records.

Concluding Remarks

Our review of the Commission's management procedures and controls to evaluate how well these support sound management of its operation indicated the following practices which are supportive to good management.

- A strategic plan was developed for the three-year period from 1988 to 1991.

- Documentation in patient files met established standards.

- There were adequate indicators and procedures to assess the efficiency and effectiveness of its prevention and community education programs.

- Procedures had been developed to monitor resource utilization in the Primary Care Program.

- Result indicators have been developed for the Aftercare Program and are reported upon annually.

However, our review identified significant deficiencies in certain of the Commission's management controls.

- There is no formal mechanism to indicate achievements as scheduled in the strategic plan, or reasons for not meeting planned objectives.
- New treatment issues are not responded to as quickly as the Commission would like.
- The present computerized system for processing data appears to be inflexible and costly to operate.
- The objectives of the Primary Care Program are not written in a manner to facilitate the development of appropriate result indicators.
- The result indicators for the Aftercare Program are deficient with respect to showing the linkage between it and Primary Care services, the demand for out-patient therapist services, and the efficiency and effectiveness of the Aftercare services.

Accordingly it is our overall conclusion that although the Commission has initiated many of the basic ingredients for appropriate management such as a strategic plan, an information system, and result indicators, the overall management system cannot be considered adequate until procedures are in place to address more completely the efficiency and effectiveness of the various programs on a timely basis.

Department of Health and Fitness
Community Health Services

Summary

Objectives — The objectives of our audit were to review management procedures and controls to determine whether they were adequate to ensure operations were: achieving their stated objectives; in compliance with relevant legislation and policies; and performed in an efficient manner. We also reviewed financial and accounting controls over purchasing and disbursements.

Findings and Conclusions — Our principal findings and conclusions were as follows:

- The objectives of the Ambulance Subsidy Program are adequately documented and management controls are adequate to ensure compliance with the agreement. Result indicators are not used for the program, although management is in the process of developing them.
- Measurable objectives have not been established for many of the programs in Community Health Nursing. These should be established so that program

efficiency and effectiveness can be evaluated. Such objectives were under development at the time of our audit.

- Public Health Inspection programs have measurable objectives and there is a means of determining whether these objectives are met. However, the frequency of certain public health inspections should be increased to meet the standards.

- For the Coordinated Home Care Program, the program evaluation process is progressing towards providing a measure of program efficiency and effectiveness. We made some recommendations for improvements in the administration of the program.

Introduction

Within the Department of Health and Fitness, Community Health Services administers several programs which are designed to improve, maintain and promote health levels on a Province-wide basis. Community Health Services is coordinated through a central office where Program Directors develop program policy. Programs are delivered through seven Provincial Health Units, each of which has one or more offices reporting to it.

The objectives of our audit were to review management procedures and controls with a view to determining whether they were reasonable for purposes of ensuring operations: were achieving the stated objectives of programs; were in compliance with relevant legislation and policies; and were performed in an efficient manner. In addition, we conducted a limited review of financial and accounting controls over purchasing and disbursements. The Atlantic Health Unit located in the Halifax Metropolitan area, which is the largest Provincial Health Unit, was chosen for a review of Community Health Nursing and Public Health Inspection.

Our overall conclusion was that there are some areas where there are well-designed management procedures and controls, and some areas where practices should be revised. These are discussed in further detail in the following paragraphs.

Ambulance Subsidy Program

The purpose of the Ambulance Subsidy Program is to ensure that all residents of Nova Scotia have reasonable access to ambulance services, using safe vehicles and appropriately qualified personnel. This is achieved through an agreement with all ambulance operators in the Province, which sets out conditions and criteria for ambulance service and the funding for it.

Our objectives for the audit of this program were to determine how management is satisfied that the objectives of the program are being achieved; and what management controls exist to ensure objectives are met in an efficient manner.

Our overall conclusion is that the objectives of the program are adequately documented, and are being achieved through the implementation of the agreement for ambulance service; and that management controls are in place to ensure compliance with the agreement.

We found that result indicators are not used, but for the ambulance subsidy program a monthly statistical report on the number and types of calls serviced by ambulance operators on a cumulative basis is prepared. Other statistical reports are produced as needed. The Department is in the process of developing result indicators for this program, but as yet they have not been implemented.

Community Health Nursing

The goals of Community Health Nursing are health promotion, health protection and illness prevention. These goals are achieved through several programs and services, each of which is aimed at a specific group. The programs and services are provided through the seven Provincial Health Units.

For purposes of this audit, we examined management controls regarding programs and services delivered through the Atlantic Health Unit. Our objectives were to determine if the present programs and services offered have established objectives, as well as a means to measure whether these objectives have been met; and to examine management controls over the Hearing and Enhanced Vision screening programs, Hepatitis-B follow-up, and the Influenza Prevention program.

We concluded that many of the existing programs and services do not have measurable objectives, but that Community Health Nursing is moving towards the establishment of them. Improvements could be made to the follow-up procedures of the screening programs. We concluded that management controls for the Hepatitis-B follow-up and the Influenza Prevention programs are adequate.

Management of Community Health Nursing realizes the importance of measurable objectives. Thus they are in the process of re-designing programs and services so that objectives, and the means through which objectives are achieved, are specified. As well, objectives are to be established in such a manner that their achievement can be readily measured. This will provide an indication of program efficiency or effectiveness.

Public Health Inspection

The responsibility of Public Health Inspection is the provision of adequate preventative measures in the field of environmental health to protect the health of the public. This is achieved through several programs, each of which is aimed at a specific target area. Programs are provided through the seven Provincial Health Units.

We examined management controls surrounding programs delivered through the Atlantic Health Unit. Our specific audit objectives with regard to Public Health Inspection were to determine the objectives of the program; to determine if there is a means whereby management can measure whether these objectives have been met; and to examine management controls over food, sewage disposal, schools, and housing programs.

We concluded that the programs have established objectives, and there is a means for management to measure whether these objectives are being met. However, improvement could be made in the reporting of outbreaks of food and water-born diseases. Furthermore, the frequency of certain public health inspections should be increased to meet the standards for such inspections.

More specifically, the areas we noted for improvement are as follows:

- There is a need for better communication and reporting between the Health Units and the central office, which we found to be inconsistent and incomplete on occasion.

- The frequency of certain public health inspections should be increased to meet the standards for such inspections. It is acknowledged that inspections cannot always be performed as frequently as required because of insufficient manpower. However, we feel it is important to meet such standards on a regular basis if the division's objectives are to be achieved.

Coordinated Home Care Program

The purpose of the Coordinated Home Care Program is to foster independence of program clients, in order that they may continue to live in their own homes. This is achieved through an assessment process which specifies required care, and draws on the resources of several government departments, to ensure care is provided as required.

Since this audit dealt with Community Health Services, we concentrated only on that division's role in the program. We did not examine the role of the Department of Community Services relating to it. Our specific objectives regarding the program were to assess the adequacy of control over the payment of invoices for nursing services; to determine if there is a means to assess the adequacy of information documented in client charts; and to assess the adequacy of the program evaluation process.

Documentation standards are presently being developed to assess the sufficiency and appropriateness of information contained in client charts. We concluded that the evaluation process is progressing in a manner which will lead to providing a measure of program efficiency and effectiveness. There should be verification, on a sample basis, of nursing services detailed on invoices to ensure all services paid for were actually provided.

Subsequent to our audit, we were informed that procedures are being developed to verify the delivery as well as assess the quality of nursing services. The new procedures should be implemented early in the 1990-91 fiscal year.

Department of Labour
Fire Marshal

Summary

In 1987 we conducted a special review of the Office of the Fire Marshal, the objectives of which were to determine if the office was fulfilling its legislative responsibilities, and to assess the adequacy of the systems relating to inspection activities.

This review focused on:

— the inspection of fire hazards and building plans under the Fire Prevention Act;

— electrical inspections under the Electrical Installation and Inspection Act; and

— liquefied petroleum gas inspections.

Objectives — The objective of our current year's review was to assess the status of recommendations made in our 1987 Report.

Findings and Conclusions — The Office of the Fire Marshal has made considerable efforts to address the recommendations from our 1987 review. By introducing more efficient methods and procedures there has been an increase in certain types of inspections.

Despite efforts to have more fire inspections done by municipalities, as required by legislation, this has not been the case.

In addition we found that:

— Since our 1987 review there has been no increase in the number of liquefied petroleum gas inspectors employed by the Department, consequently repeat inspections are still rare.

— There has been very little change regarding inspections for building plan approvals.

— There has been no change in the Office's ability to commit resources to the monitoring of electrical inspections.

Introduction

In 1987 we conducted a special review of the Office of the Fire Marshal within the Department of Labour. The results were reported to the Department in January 1988, and an article in our 1987 Annual Report described the results of this examination and the recommendations we made.

The objectives of our review in 1987 were:

— to determine if the Office was fulfilling its legislated responsibilities as outlined in the Fire Prevention Act and other relevant acts and regulations; and

— to assess the adequacy of the systems in place relating to the inspection activities conducted by the Fire Marshal.

Our review focused on the Fire Marshal's activities relating to:

— the inspection of fire hazards and building plans under the Fire Prevention Act;

— electrical inspections under the Electrical Installation and Inspection Act; and

— liquefied petroleum (L.P.) gas inspections under the regulations concerning L.P. gas installation and equipment.

Reaction to our report by the Department was positive in that there was an acknowledgement of the audit findings and observations, and general agreement with our recommendations.

We stated in the 1987 Annual Report that the principal reason that the Fire Marshal had not been able to perform fully the role contemplated under various acts and regulations was the limited resources available to the Office. We understand the difficulty the Department faced in addressing our recommendations. The successful implementation of a number of our recommendations was contingent on the procurement of more resources, or the reallocation of inspection activity to various independent organizations.

In early 1990, we conducted a follow-up review to assess the status of the recommendations made in our report to the Department. Our observations resulting from the follow-up review are in the following paragraphs, under the four captions used in 1987.

Inspection for Fire Hazards

In 1987 we found that the Fire Marshal performs many inspection activities that are the legislated responsibility of municipalities. Many municipalities do not have employees with sufficient training to perform the inspections properly. As a consequence of fulfilling responsibilities assigned to other bodies, and due to the lack of resources available to the Office, the Fire Marshal's Office was not conducting inspections of schools and hospitals as often as it would like. Furthermore, municipalities were not required to submit fire inspection information to the Office which would permit monitoring of compliance with the Act.

We also reported that the frequency of inspections for certain types of institutions has been determined more on the basis of licensing requirements than on an analysis of the fire risks. As well, there did not appear to be an adequate system to ensure that deficiencies noted on inspection reports were followed up on a timely basis.

In our follow-up review we determined that the Department has reminded municipalities of their responsibilities under the Fire Prevention Act, and has attempted to reduce the number of inspections the Office performs for the municipalities. After several communications involving the Fire Marshal, the Department of Municipal Affairs, various municipal officials, and the Union of Nova Scotia Municipalities, it was decided that there would be no reduction in the level of inspection services provided by the Office of the Fire Marshal.

Since our 1987 review there have been only small increases in the Office's budget, and no increase in their staff complement. However, the frequency of school, hospital, and other inspections has increased in 1988-89 due to actions taken by the Fire Marshal to improve the efficiency of inspection operations. The frequency of these inspections still does not meet some of the goals set by the Office, or the levels specified in legislation.

Municipalities are not required to submit information that would enable the Fire Marshal to assess compliance with the Fire Prevention Act. This information is maintained by the municipalities involved in fire inspections and is available to the Office only upon request.

The Fire Marshal's Office is studying the possibility of determining the frequency of inspections for certain types of institutions based on an analysis of fire risks. Changes are in the planning stage, and no other departments or agencies have been contacted regarding amendments to their licensing regulations. Preliminary plans include seeking assistance from the staff of other government departments in the inspection of some institutions.

Significant improvements have been made to the procedures used to follow up deficiencies noted on inspection reports. A specific period of time is now provided for the correction of deficiencies reported, and inspectees are now required to report in writing corrective action taken. Deputy Fire Marshals are required to follow up on inspections when no response is received in the period of time granted. Standard follow-up letters are used.

Liquefied Petroleum Gas Inspections

During our review in 1987 we found that the Fire Marshal's Office does not maintain a master list of L.P. gas installations for which it has inspection responsibilities. We found that repeat inspections are rarely conducted due to manpower limitations, and follow up of deficiencies noted on inspection reports was not as prompt as it should be.

Since our original review, there has been no increase in the number of L.P. gas inspectors employed by the Department. Consequently, repeat inspections are still rare, being restricted to follow up of deficiencies noted during the initial inspection. Since repeat inspections are not feasible at this time, there is no significant need for a master list of L.P. gas installations to use in the planning and scheduling of periodic inspections.

Procedures for follow up of deficiencies noted in an L.P. gas inspection report have been strengthened in the same manner as those for fire inspection follow-up discussed earlier. A specific time frame is set for the correction of deficiencies, and the inspectee is required to report, in writing, the corrective action taken. Standard follow-up letters are used when there is no response from the inspectee.

Building Plan Approvals

In our 1987 review we observed that there was no formal system in place to ensure that plans are submitted for approval for all new construction or alterations. In addition, the Fire Marshal's Office conducted very few on-site inspections.

Very little has changed in this area since our original review. In 1987 only one municipality required by law that building plans be inspected by the Fire Marshal before a building permit is issued. No other municipalities have made this a legal requirement, but more municipal building inspectors are requiring plan examination

as one of their own criteria for granting building permits. There are still many municipalities where plan examinations are not a condition for receiving a building permit.

The frequency of on-site inspection of construction and alterations has not increased significantly. However, measures have been taken to increase the efficiency of plan examinations, and to provide additional time for on-site inspection.

Electrical Inspections

We observed that electrical inspections are conducted by public utilities, principally the Nova Scotia Power Corporation. We did not review the public utility inspectors performance of such inspections, but we did note that the inspection fee to be charged had not been increased since 1979. We also noted that the Fire Marshal's Office did not have the resources to monitor the completeness and thoroughness of electrical inspections.

A change in the regulations governing electrical inspections is forthcoming. The change addresses the increasing of electrical inspection fees. There has been no change in the Office's inability to commit resources to the monitoring of electrical inspections.

Concluding Remarks

It is our opinion that the Office of the Fire Marshal has made considerable efforts in addressing the recommendations from our 1987 review. By introducing more efficient methods and procedures there has been an increase in inspections. However, there has not been a significant increase in the manpower and other resources required to implement all desirable improvements to inspection and other operations.

Furthermore, despite efforts to have more fire inspections done by municipalities, as required by legislation, this has not been the case. Consequently, improvements have not been as extensive as required to ensure that the Fire Marshal fullfills the role we perceive is contemplated under the various acts and regulations pertaining to fire prevention.

Department of Lands and Forests

Summary

Background — In 1988 we conducted an audit of head office accounting systems and controls. We also reviewed management controls in two operating divisions: Nurseries and Air Services. We found management controls in both divisions to be adequate. In 1989 we conducted further audit work in the Department.

Objectives — The objectives of our audit were to review progress made in addressing recommendations from our prior audit of head office accounting controls; and to evaluate management procedures and controls, as well as accounting systems, for Forest Protection, Parks and Recreation, and Land Services.

Findings and Conclusions — The following are our principal findings and conclusions:

- Improvements have been made in head office accounting controls, and we have recommended further improvements.
- Sound management practices are being employed in the Forest Protection Division.
- Management controls are generally adequate in the Planning and Development Sections of Parks and Recreation. However, we found deficiencies in the reporting for capital projects in the Operations Division.
- Management controls are adequate in the Land Resources Division.

Introduction

The Department of Lands and Forests is charged with the administration of the Crown Lands Act, the Forest Act, the Wildlife Act, the Provincial Parks Act, and various other statutes. From these Acts, the Department derives the authority to administer and manage crown lands, implement forest management programs, operate forest tree nurseries, protect the forest, develop an operating system of parks, and protect and conserve wildlife and other resources.

In 1988 we conducted an audit, the primary focus of which was to review and evaluate head office accounting systems and controls. In addition, we reviewed management procedures and controls in two operating divisions, namely Nurseries, and Air Services. We concluded that the Nursery Division was maintaining control over day-to-day operations and quality of production. We found the accounting systems, as well as management controls for the Air Services Division to be adequate. We did not address the efficiency of air services provided.

In 1989 we conducted further audit work in the Department with the objectives being to obtain an update on progress made in implementing recommendations from our 1988 audit regarding head office revenue and accounting controls; and to evaluate management procedures and controls, as well as accounting systems for Forest Protection, Parks and Recreation, and Land Services.

Head Office Revenue

The 1988 audit of head office revenue systems and controls indicated a lack of segregation of duties. We recommended ways to improve control systems. During the year certain improvements were made in the assignment of staff responsibilities. Also a cash register was installed.

On the basis of our audit review this year, we have recommended further control improvements involving an independent reconciliation of receipts, and better segregation of duties in the game licenses section.

Forest Protection

Forest Protection encompasses a number of activities including protection against fire, insects, diseases, and unwanted competing vegetation. The objective of the fire protection program is to minimize the damage caused by forest fires by providing adequate manpower, equipment, and training for the prevention, detection, and suppression of fires.

Our audit objectives regarding this area were to review the management procedures and controls used to ensure that program operations are achieving the objectives of the program, are complying with relevant legislation, policies and guidelines, and are conducted in an efficient manner; and also to determine if the expenditure accounting systems and controls are adequate to ensure that expenditures are properly approved, recorded, and spent for the purposes appropriated.

We found clear evidence of sound management practices being employed by the Department. These include the use of result indicators, production of statistical reports on activities of the section, feed-back from field staff on areas of weakness with suggestions for improvements, regular comparisons of budget to actual, and detailed reports on each fire.

We found the controls over expenditures to be adequate.

Parks and Recreation

The Province adopted a new policy for parks on April 8, 1988 supported by new legislation which became effective January 1, 1989. We decided to concentrate our audit efforts on the Planning and Development Sections of Parks and Recreation, since these two sections are responsible for the implementation of the planning and development aspects of the new policy.

The Planning Section produces program proposals and plans for recreation facility development, interpretation, and resource management. The responsibility of the Development Section is to take the plans created by the Planning Section and develop the parks in cooperation with the Operations Branch.

Our audit objectives in this area were to review the management procedures and controls the Planning Section uses to ensure that Program Operations are achieving the objectives set for them, are complying with relevant legislation, policies and guidelines and are conducted in an efficient manner; and to determine if the expenditure accounting systems and controls, in the Planning and Development Sections, are adequate to ensure expenditures are properly approved, recorded and spent for the purposes appropriated.

Our audit conclusions may be summarized briefly as follows:

- We found management controls to be adequate in the planning component of the program. Management had implemented several procedures to ensure the objectives of the program are being fulfilled.

- Controls over the general operating expenses of both the Planning and Development Sections were, in our opinion, adequate.

- We found that the commitment figures on the forms used for monitoring expenditures on capital projects were not being accurately reported. This is a responsibility of the Operations Division.

Land Services

The responsibility of the Land Resources Division is to ensure all land transactions are completed in an efficient and expedient manner. Their work involves the coordination of such activities as land acquisitions, land disposals, land grants, and leases for camp sites on crown land.

The objectives of our audit were to review, in selected areas, the management procedures and controls used to ensure that program operations are achieving the objectives of the program, and are complying with relevant legislation, policies, and guidelines; to determine if the accounting systems and controls are adequate to ensure expenditures are properly approved, accurately recorded, and spent for the purpose appropriated; and to determine if the systems and controls are adequate to ensure that revenues are properly accounted for and controlled.

It should be noted that our review did not include an evaluation of the prices paid for land acquisitions. This will be examined in a future audit.

We concluded that management procedures and controls are adequate to ensure the programs are operating in accordance with legislation, and are achieving program objectives. The expenditure system is adequate to ensure all expenditures are properly approved and accurately recorded, and all revenues are properly accounted for and controlled.

Transfer Payment Audits

Summary

The House of Assembly in its 1988 sitting gave the Auditor General the mandate to audit the accounts of any person or institution receiving financial assistance from the government or an agency of government. The most important aspect of our transfer payment audit activity will be to provide a commentary to the Legislature on the adequacy of the accountability process in place for the expenditure of these funds.

Our audits will include, but not necessarily be confined to, four areas of government expenditure.

- Education — government payments to school boards, universities, and other post-secondary institutions.

- Health — payments to hospitals and other health care institutions.

- Municipalities — general assistance to municipalities, and financial assistance for specific projects.

- Community (social) Services — payments to various institutions in this field, and other payments.

Objectives — Our objectives are to determine whether the financial assistance from the government has been applied to the specific purposes intended, and whether its application has been carried out in a prudent manner with due regard for economy and efficiency. Our audits will encompass three distinct phases:

- an overview to determine the administrative and control structures in place at the institution and at the related government department;
- a review of the specific operating systems and controls at the institution; and
- a detailed review of selected areas of administration particularly those which impact significantly on financial results.

Progress to Date

Universities — We have planned reviews at the seven largest universities. Our areas of concentration for this series of reviews are financial management, capital expenditures/projects, fixed asset/equipment controls, and purchasing practices.

We completed the fieldwork for three of these in 1989. The other four will be completed by March 31, 1990. Our 1990 Annual Report will include an article on the results of this assignment.

School Boards — We completed the field work for one school board audit in 1989. We have another one planned for March 1990. We hope to complete two to four more school board audits during 1990. The areas examined during these reviews include financial management, purchasing, board policies and procedures, capital expenditure planning and control, and controls over fixed assets.

Our 1990 Annual Report will include an article on the results of the audits completed in 1989 and 1990.

Introduction

Audit Mandate — The House of Assembly in its 1988 sitting considered the need to provide a more effective review of the administration of expenditures to grant and other assistance recipients (nearly 70% of government expenditures). As a result of this consideration, amendments were enacted to the Auditor General Act which provided that the Auditor General may make an examination and audit of the accounts of any person or institution receiving financial assistance from the government or an agency of government.

The practical effect of this legislated mandate is to provide the Auditor General's Office the right to conduct reviews in those entities where financial assistance has been given, in order to determine whether this assistance has been applied to the specific purposes intended, and whether its application has been carried out in a prudent manner with due regard for economy and efficiency.

It should be recognized that in certain instances departments of government do conduct extensive reviews of the expenditures of funds disbursed by their particular departments, such as is the case for the Departments of Community Services, Education, and Health and Fitness. Accordingly, it is not the intent of this Office to

duplicate these efforts, but rather to assess the overall effectiveness of the reviews performed by these departments, as well as conduct our own reviews in those cases where none are presently being carried out.

Although the transfer payment audits commenced in 1989 are the first by our Office in this area of government expenditure, we have been conducting similar audits with regard to purpose and scope in crown agencies and departments for many years.

Overall Purpose and Scope — Generally, the audits we will perform of financial assistance recipients, which are often termed transfer payment audits, will encompass three distinct phases:

— an overview of the area to determine the administrative and control structures in place, both at the institution and at the government departments concerned;

— a review of specific operating systems and controls at the institution; and

— a detailed review of selected areas of administration, in particular those which impact significantly on financial matters from an economy and efficiency standpoint.

The audits will be conducted on a cyclical basis. We will not perform annual audits in all of these entities. We hope to visit most of the larger entities at least once in every five-year period. Our audits will not encompass a review of all aspects of the entities' operations each time, only selected areas. Our concentration will be on areas which impact on the control over expenditures which flow directly from the government department or agency concerned.

To avoid duplication of efforts, these audits will not have the same objectives or scope as the financial statement audits conducted by the entities' external auditors. It should also be understood that our audit work in 1989 and 1990 will not cover all aspects of a given entity's operations, nor always in the depth that is possible. Accordingly, because of the selective aspects of our audit activity (to accommodate the resources we have available and the time the auditee has to support our audit effort), there should not be an expectation that the results of these audits will encompass all areas in great depth.

Our audit activities will include, but not necessarily be confined to, four areas of government expenditure.

- Education — government payments to school boards, universities and other post-secondary institutions.

- Health — payments to hospitals and other health care institutions.

- Municipalities — general assistance to municipalities, and financial assistance for specific projects.

- Community (social) Services — payments to various institutions in this field, and other payments.

Accountability — The most important aspect of our transfer payment audit activity will be to provide a commentary to the Legislature on the adequacy of the accountability process in place for the expenditure of these funds.

Accountability in its simplest terms means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties; one who allocates responsibility and one who accepts it with the undertaking to report upon the manner in which it has been discharged.

Adequate accountability information should include an indication of an entity's objectives and how they are to be achieved; the resources required to achieve these objectives; an indication of the controls and information flow being used to monitor the achievement of these objectives; and an indication of the actual results achieved in relation to the original objectives, and reasonable explanations for deviations from them.

It should be clearly understood that the audit process, which we will be performing, is not part of the accountability relationship as such, but is superimposed upon it. It is a process outside the accountability relationship, performed by an independent third party primarily serving the interest of the party who delegated the responsibility.

Accordingly, it will be our task to view the manner in which the administration and use of the funds being provided is accounted for in three dimensions: within the entity itself, including its own governing bodies; by the disbursing department or agencies concerned; and the accounting to the party with the ultimate or prime responsibility for the allocation of funds, that is the House of Assembly.

Initiatives Elsewhere — Transfer payment auditing and accountability for transfer payments have been the subject of considerable discussion and audit effort in various parts of Canada. Initiatives in this respect have come primarily from two sources — The Canadian Comprehensive Auditing Foundation, and other provincial legislative audit offices. In 1988, the Foundation produced a study entitled "Provincial Government Transfer Payments: Accountability and Audit". This study has received considerable support, in areas such as health care, by those involved in the administration of these functions with a view to improving their accountability for the use of funds provided them by government.

In addition, there have been audits performed by other provincial audit offices, notably by Ontario in community colleges and universities; by Alberta in hospitals and other health care institutions, as well as post-secondary education institutions; and by British Columbia in both secondary and post-secondary education. It should be noted that their reviews embraced not only the entities concerned, but also the departments responsible for the disbursement of the funds to the transfer payment recipients.

Audits In Progress — Universities and School Boards

Preliminary Meetings — We have commenced audit activity in universities and school boards. In connection with these reviews, we conducted several preliminary meetings with the groups concerned, in order to explain the purposes, the manner of performing, and the reporting considerations relating to our upcoming

audits in these two areas. We met separately with the Presidents of the Nova Scotia universities, the Vice-Presidents Administration, and other financial staff of these same universities, the Executive of the Nova Scotia School Boards Association, and the Superintendents of the school boards of Nova Scotia. These meetings were held at various times from April 1989 to October 1989.

Our presentations covered essentially three matters.

- The intent of the provisions of the Auditor General Act relating to accountability in general and transfer payment audit reviews in particular.
- The objectives and scope of our upcoming audits, with an indication of the criteria we would be employing.
- The process with respect to review of our audit findings and the reporting of them, both to the auditees and in our Annual Report to the Legislature.

Considerable emphasis was placed on the fact that we will be affording the auditees ample opportunity to review the observations and conclusions which result from our audits. The purposes of this review are twofold:

— to ensure that our observations and conclusions are appropriate, and that there is a reasonable opportunity to discuss them with those concerned; and

— to afford an opportunity for us to include, in our Annual Report to the Legislature, whatever initiatives these groups have taken or planned in areas which, in our view, warrant attention.

Scope of Reviews — The audit reviews which we have commenced in the universities and school boards generally are directed towards:

— financial management and budgetary control;

— management and accounting controls, and information systems in certain selected areas;

— controls over fixed assets; and

— an understanding of financial position and operating results.

Our reviews will be concerned with the adequacy of the information and reporting systems used to monitor and control specific significant activities within the entity.

We shall be interested in how well economic acquisition and efficient utilization of resources is achieved. Where appropriate and possible, we shall determine what systems and information processes are used to measure the results of the various activities which are the responsibilities of the particular entities concerned. We shall also examine other management practices, primarily those which relate to financial responsibilities.

It should be reiterated that our audit reviews will encompass not only the entities who receive these transfer payments, but will include a review of the roles and

functions of the departments and bodies who are directly responsible for the specific transfer payment area. This would include for example, in the case of the universities, the Maritime Provinces Higher Education Commission, and the Nova Scotia Council on Higher Education; and for school boards, the Department of Education.

Audit Coverage — Universities

We have planned reviews at seven of the larger universities, which together comprise approximately 90% of the expenditures for post-secondary education at the university level. These reviews are scheduled in the period from October 1, 1989 to March 31, 1990. We conducted reviews in 1989 at the University College of Cape Breton, Saint Francis Xavier University, and Acadia University. We have visits scheduled in 1990 at Mount Saint Vincent University, Dalhousie University, Saint Mary's University, and the Technical University of Nova Scotia.

In preparation for these reviews, we undertook a preliminary visit in June 1989 to Saint Francis Xavier University. Our purpose was not to conduct an audit, but to provide our staff with an appreciation of administrative practices within a university and a sound basis for the preparation of our detailed plans for the upcoming reviews. This session at Saint Francis Xavier University proved extremely worthwhile, and we are indebted to the President and the staff of the University for affording us this opportunity.

The areas which we have selected for review in the university audits may be described as follows.

- Financial management process — The objectives are to review the financial position and operating results, and also to assess the financial management process. The audit criteria include: an adequate level of management and Board involvement; adequate financial planning, budgeting and costing practices; and adequate financial accounting, reporting and monitoring practices.

- Capital expenditures/projects — The objectives are to assess the planning and control systems over capital expenditures and related projects. There should be clearly defined and communicated statements of policies and responsibilities, adequate internal controls and procedures, and reporting requirements which are clearly defined and complied with.

- Fixed assets/equipment controls — The objective is to assess the policies and procedures over the use and control of fixed assets and equipment. The criteria for this assessment relate to the adequacy of policies and responsibilities, reporting requirements, and inventory control and security procedures.

- Purchasing practices — The objective is to assess the policies and procedures over the purchasing of goods and services. The criteria include adequate definition and communication of policies and responsibilities, the use of bulk or joint purchasing to achieve efficiency and economies of scale, and the reporting and monitoring of performance of the purchasing function.

Audit Coverage — School Boards

We conducted a review at Kings County District School Board, and plan one at Antigonish District School Board in early 1990. We hope to perform reviews at two to four other school boards during 1990, but have not selected these yet.

We have completed the field work for the audit of the Kings County District School Board. In some respects the scope of the reviews and the areas on which we concentrated are similar to those described above for the universities. More specifically, the coverage at Kings, which is what we plan in 1990 for other boards, may be summarized as follows:

- Financial management — The objectives are to assess the financial management system in terms of its ability to provide information to management and the Board for decision making and control; to review the financial position and operating results; to gain an understanding of the relationship with municipalities and the Department of Education; and to review the organizational structure to ensure responsibilities are clearly defined and accountabilities established. The criteria used relate to the definition of policies and procedures; the adequacy of accounting systems; the existence of budget guidelines for preparation and challenge; the appropriateness of the roles of the Board, staff and management; the adequacy of training, supervision and performance of financial administration staff; and the adequacy of the planning process, particularly with respect to financial matters.

- Purchasing — The objectives are to gain an understanding of the purchasing policies and procedures, and to assess whether the purchasing function is meeting the needs of management in an economical manner. This includes a review of the management reporting system for purchasing, the purchasing policies in place, and a review of certain items purchased.

- Board policies and procedures — The objectives are to gain an understanding of the Board's policies in key areas, and of the types of non-financial information received and monitored by the Board and senior management. This will provide an indication of the use made by the Board of key indicators, produced not only by the Board but by the Department of Education.

- Capital expenditure planning and control — The objectives are to gain an understanding of and assess the policies and procedures for initiating, reviewing, and controlling capital expenditures; to evaluate the control over a sample of specific capital expenditures; and to gain an understanding of the Board's planning and priorization process with respect to capital expenditures.

- Controls over fixed assets — The objectives are to assess the Board's systems and procedures for the physical and accounting controls over fixed assets, and to understand the Board's accounting and depreciation policies for them.

Current Status

Five assignments have been finished with respect to field work. We are currently in the process of preparing preliminary audit summaries for review with senior officials of the four universities and the one school board concerned. Since we will not be issuing our final reports to them until sometime in 1990, our 1990 Annual Report will include articles on all audits completed in 1990.

However, it is appropriate that we comment on the manner in which we were received by the five entities visited to date. In all cases, well in advance of commencing the audits, we had preliminary meetings with senior administrative staff to convey logistical and information requirements. These pre-audit visits proved extremely worthwhile. We received the utmost cooperation from all five entities, particularly in providing required information and facilities for conduct of the audit, arranging for interviews with key personnel, and other activities relating to the audits.

We were able to perform our field work to our complete satisfaction, and we are extremely indebted to the senior administrative staff of the entities for the cooperation extended to our staff. We also note that we have had information provided by the other three universities we shall be visiting in 1990, as well as pre-audit visits with some of them. Again, the degree of cooperation has been fully commensurate with our audit requirements.

Vehicle Utilization

Summary

We completed a review of selected areas relating to the utilization of vehicles to meet the personnel transportation needs of the government. For purposes of the assignment "vehicles" was defined to include automobiles and light trucks used primarily to transport government personnel in the course of their employment. There are approximately 1400 units within this category and three departments (Transportation and Communications, Lands and Forests, and Agriculture and Marketing) account for 80% of these units.

Objectives — The objectives of this assignment were:

— to identify the policies and practices by which the operating personnel transportation needs of government are met; and

— to assess the general management and control over the utilization of vehicles for government purposes.

Findings and Conclusions — The more significant findings and conclusions from our review were:

— Annual vehicle-related costs for purchases, mileage reimbursement, monthly allowances, and operating expenses are estimated to be in excess of $15 million.

— There was a lack of reliable, verifiable information on a central, government-wide basis.

— There is a need for a centralized responsibility to provide a government-wide monitoring for compliance with prescribed policies and guidelines.

— Although certain departments maintain up-to-date records of the types and costs of their vehicles, as well as the costs of maintaining them, not all do.

— There is a lack of reliable data available for reference when reviewing automobile allowances and mileage reimbursements.

Introduction

The Office completed a review of selected areas relating to the utilization of vehicles to meet the personnel transportation needs of the government. This was our initial effort at reviewing this subject on a government-wide basis.

For purposes of the assignment "vehicles" was defined to include automobiles and light trucks, used primarily to transport government personnel in the course of their employment. This included government-owned or leased vehicles, as well as employee-owned vehicles for which employees receive a monthly allowance and/or mileage reimbursement. The use of short-term rental vehicles was excluded from this review.

The assignment was started in 1987, with the bulk of our analysis completed using information available for the year ended March 31, 1987. Where appropriate and available, the information has been updated for the year ended March 31, 1989.

Objectives

The objectives of this assignment were:

— to identify the policies and practices by which the operating personnel transportation needs of government are met; and

— to assess the general management and control over the utilization of vehicles for government purposes.

Background

Vehicles used primarily for personnel transportation needs of the government include automobiles and light trucks purchased or leased by the government, as well as employee-owned vehicles for which a monthly allowance and/or mileage reimbursement is paid.

The following is a summary of the general or background information relating to vehicle utilization.

- There are approximately 1,400 units listed for vehicle insurance purposes with the Department of Government Services. Three departments — Transportation and Communications, Lands and Forests, and Agriculture and Marketing — account for 80% of these units. All other departments have less than 60 units each on the insurance list.

  Based on this listing, the government owns approximately 100 cars and a similar number of light trucks. The remaining 1,200 units are heavy trucks, construction equipment, fire trucks, and other items such as all-terrain vehicles.

- All vehicle purchases are coordinated by the Nova Scotia Government Purchasing Agency. The Purchasing Agency's "car book" records indicate that 82 "vehicles" were purchased during 1987-88, and 40 were purchased during 1986-87.

- In most cases the rates paid for monthly allowances and distance reimbursements are negotiated benefits, which are subject to periodic revision. During the 1986-87 fiscal period, in excess of 1,000 government employees received monthly car allowances. Of these, 225 were employed by Transportation and Communications. This number did not change significantly for 1988-89.

- Selected Statistical Data

	1988-89	1986-87
Employees reimbursed for mileage claims	8,300	6,600
Total kilometres reimbursed	41 million	35 million
Employees reimbursed for more than 40,000 km	36	25

Scope, Approach and Limitation

There are approximately 1,400 government-owned vehicles for insurance purposes. The makes, ages, and uses of these vehicles (automobiles, heavy trucks of all sorts, construction equipment, trailers, skidoos, and boats) differ significantly.

There were no cost figures maintained on a central basis available for these vehicles. From our review at the department level, we determined that the cost would be available for some, but not all, of these vehicles.

Furthermore, although there is a Management Guide requirement for departments to submit reports indicating the usage of vehicles, including leased vehicles specifically, we could not obtain a reliable central listing of leased vehicles.

Our audit of vehicle utilization included an examination of the following areas.

Use of employee-owned vehicles

Acquisition and use of government-owned vehicles

Protection of assets

For each area we developed audit objectives and general criteria against which we assessed the information gathered. In general, the criteria were:

— adherence to Management Guide policies;

— policies at the department level, supporting Management Guide policies;

— responsibility for ensuring adherence to these policies, on an ongoing basis, assigned to specific individuals at the department level and at the Civil Service Commission;

— economy and appropriateness of acquisitions and disposals;

— timeliness of purchases and replacements; and

— the maintenance of appropriate records by vehicle and by class of vehicle.

We reviewed the Government of Nova Scotia's Management Manuals to identify the policies and guidelines relating to vehicles and vehicle utilization. For vehicle purchases we reviewed the Purchasing Agency's records and procedures.

We interviewed departmental employees responsible for, or involved in, functions associated with the management and control of vehicles. This encompassed representatives from Management Board, Civil Service Commission, Government Services, Finance, Purchasing Agency, Transportation and Communications, Lands and Forests, and Agriculture and Marketing.

A number of our observations and conclusions were derived from information, obtained from these sources, which was not available on a central or government-wide basis for fiscal periods other than 1986-87. We emphasize that certain basic information we required such as listings of vehicles for personnel transportation, vehicle purchases per year, leased vehicles, and distances reimbursed was not readily available. As a result, our analysis in these areas was not as comprehensive or complete as we originally anticipated.

Our significant observations and recommendations are discussed in the following paragraphs.

Use of Employee-owned Vehicles

Information available indicates that employee-owned vehicles, for which reimbursement is made on a mileage basis, provide most of the personnel transportation needs of the Government.

Some departments review and monitor staff positions receiving car allowances to ensure that they are warranted.

- However, there is a lack of consistency in reviewing car allowances on a departmental basis. Such reviews should be done regularly, on a departmental as well as a central basis.

The Civil Service Commission has guidelines for determining if a position is to be designated as having the option of receiving a monthly car allowance. These specify 3,218 km (2,000 miles) as the distance below which an allowance will normally not be granted.

- However, approximately 18% of the employees who received monthly car allowances during 1986-87 (15% for 1988-89) were reimbursed for less than 3,218 km.

Twenty-five employees claimed in excess of 40,000 km. during 1986-87, while 36 exceeded 40,000 km. in 1988-89.

- In these instances, the use of government-owned vehicles may be more cost-effective and should be considered.

Complete, accurate, and timely information relating to positions designated and currently receiving monthly allowances was not readily available in certain departments, nor on a government- wide basis.

For employees being reimbursed for mileage, 1986-87 was the first fiscal period that information on total distances claimed was available centrally.

Acquisition and Use of Government-owned Vehicles

Leases — Based on the information available, approximately 30 "vehicles" have been leased by the various departments of Government.

In our review of leased vehicles we found that:

— There is no centralized coordination and monitoring of government-leased vehicles.

— Government vehicles are not leased through the Purchasing Agency, although there were plans for this to begin in late 1989.

— Tendering is not used for acquiring vehicles through long-term leasing.

— There is no central listing or accounting of government-leased vehicles, but a survey is presently underway which should result in a central listing.

We attempted to compare the costs of leasing vehicles to the costs of purchasing them. This required us to identify comparable vehicles, with similar specifications, that had been bought through the Purchasing Agency. Because of the small number of vehicles leased in a given year, we were unable to match leased and purchased vehicles that were completely similar. With the planned involvement of the Purchasing Agency in leases, including leased vehicles, this type of comparison should be obtained before the lease/purchase decision is made.

Purchases — All purchases of vehicles are coordinated and controlled by the Purchasing Agency. Tendering is used.

There is no long-term strategy for the acquisition and maintenance of vehicles for the Government as a whole. However, as part of the Province's Program Planning Process, the Department of Government Services identified the following strategic priority with respect to vehicle fleet management:

> *"Improve efficiency in the purchase, maintenance, operation and disposal of government vehicles through the implementation of a common services' fleet management policy."*

We support this priority as an essential component for vehicle fleet management, but note that it has not yet been formally approved or implemented by Government.

There are no policies and guidelines provided with respect to vehicle specifications (e.g. size and options). Specifications for vehicles to be acquired by purchase or lease are determined by the department concerned.

Administrative Matters — The implementation of standardized systems and procedures for vehicles may not be practical, due to the different sizes and information needs of departments, and the costs of maintaining this information.

We found that some departments have established their own internal systems and procedures to measure and account for the utilization of government vehicles. Certain of these are quite useful. There should be an exchange of ideas among departments to identify appropriate systems and procedures and also to minimize the duplication of effort by departments.

The vehicle reporting requirements in Management Guide 200, Chapter 6 are not being adhered to by all departments. In summary, these include the following:

- twice-yearly report on government-owned or leased vehicles, with information on each vehicle;
- twice-yearly Vehicle Usage Report, with information for usage and standby charge; and
- annual reporting, by all branches, of employees' taxable benefits.

No efforts are made by the Department of Finance to follow-up on completeness or non-compliance (with item 3 above), even though the information is necessary for the Department to fulfill its responsibilities for reporting taxable benefits. Finance considers the onus of reporting to be with the individual departments. We believe that there should be an annual follow-up to ensure that all departments are aware of this reporting requirement.

Protection of Assets

Two matters relating to protection of vehicles are described here, namely insurance and physical protection.

Insurance for government-owned vehicles is arranged and paid for through the Department of Government Services. Government-leased vehicle insurance has generally been arranged by the individual departments.

Departments are responsible for advising the insurance company of additions and disposals during the year. The insurance company sends Government Services a listing of vehicles covered each year. This list is circulated to departments for them to verify the accuracy of information at one point in the year. The updating process appears to be a reasonable one.

There are two aspects of physically protecting the vehicles. One is verifying the existence and monitoring the condition of them, for which the departments are individually responsible. The other is safeguarding the vehicles. The practices used vary among departments depending on the number and location of the vehicles. The departments appear to have given these two aspects consideration, and have used their best judgement in determining how to provide this protection without incurring unnecessary cost.

Concluding Remarks

The magnitude of annual vehicle-related costs (purchases, mileage reimbursements, monthly allowances, and operating expenses), is estimated to be in excess of $15 million. Therefore the utilization of vehicles, including the related vehicle costs, should be subject to appropriate management practices.

There was a lack of reliable, verifiable information on a central, government-wide basis. This restricted our ability to assess the general management and control over the use of vehicles and to arrive at more definitive conclusions with regard to certain of our criteria.

However, based on our review and analysis of the information that was available, we have the following observations and recommendations.

- There should be an adequate level of responsibility for centralized, government-wide monitoring for compliance with prescribed policies and guidelines to ensure all these are met. At present there is some centralized monitoring and control of certain aspects of vehicles and automobile allowances.

- Although certain major departments maintain up-to-date records of the types and costs of their vehicles, as well as the costs of maintaining them, not all do. As costs have increased, the need for such information on a more complete and consistent government-wide basis would seem essential.

- There is a lack of reliable data available for reference when reviewing automobile allowances and mileage reimbursements. The information should be expanded so that it may be used when approving specific staff positions for allowances, as well as for overall management of allowances and reimbursements.

- Vehicle information reporting requirements of departments outlined in the Management Manuals are not being complied with in all cases, and no efforts are made by the Department of Finance to follow up for compliance.

- Finance is not maintaining centralized records of all vehicles owned or leased, or their utilization, as required in Management Manual 200.

- We support the initiatives identified in the area of vehicle fleet management by the Department of Government Services during the Province's Program Planning Process. We strongly recommend that, where cost effective, the initiatives proposed by the Department be implemented as soon as is feasible.

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OTHER AUDIT OBSERVATIONS

Introduction

Each year, my Office performs many audits in the departments of government, reviewing their accounting and financial systems and examining transactions. The extent and variety of these audits is shown in Appendix II to this Report, which tabulates the 46 audits performed in 20 departments during the current audit year. These audits are done to fulfill the audit mandate of Section 7 of the Auditor General Act.

Section 8 of the Act requires that I report certain specific items that come to my attention during these audits. This requirement is met by the items included in this section of my Report and in the article on Additional Appropriations, page 49. In addition, there are articles in the Special Departmental Reviews section of this Report (commencing on page 96), which describe the results of a number of broad scope and government-wide audit assignments performed during the year.

The articles under the caption "Other Audit Observations" may be termed "reporting by exception", discussed briefly in the Introduction section of this Report.

Accounting Function Performance

In each of the past two Annual Reports there have been commentaries on the effect of the performance of the accounting function by audit clients of this Office, on our financial statement opinion audits. There are 30 such audits performed by our Office, and these are listed in Appendix III.

Our comments have been related to the effect that an unsatisfactory degree of readiness, on the part of these clients, has had on our ability to perform the audits within budgeted hourly allowances and time deadlines. For the March 31, 1987 fiscal year, we encountered delays totalling over 900 hours at a cost to the Office of nearly $40,000 for our financial statement audits. To compensate for this excess, we had to cancel or defer other scheduled audit assignments.

In 1988 there was considerable improvement in the state of readiness, largely due to three procedures we introduced that year to assist the clients in being better prepared. We also indicated the consequences of unreasonable time and cost overruns because of inadequate preparation and performance by client accounting staff.

We did experience extensive delays on three audits in 1988, but there were extenuating circumstances in each case. We had anticipated improvements for these three audits, namely Victoria General Hospital, Camp Hill Medical Centre and Housing Development Fund for 1989.

Unfortunately, the situation in 1989 was in some respects the worst we have encountered in recent years. Because of the magnitude of the problems, I feel it necessary to identify the audits which we had difficulty completing within the budgeted hours and time deadlines. A brief commentary on each of the audits concerned follows.

- The Nova Scotia Business Capital Corporation was perhaps the most serious and unanticipated one. We completed basic audit field work by July 1989, but it was not until late December that the financial statements were released, due to a number of factors described in more detail in an article on page 157. Excess time devoted to this audit was approximately 1,000 hours.

- The Victoria General Hospital audit created problems due to insufficent accounting staff at the Hospital being available for necessary work in connection with the year-end audit, because of attention being devoted to the development of the new management information system. Our field work was completed in August 1989 but it was not until January 1990 that the financial statements were completed. There was excess time on this audit of over 300 hours.

- For the Camp Hill Medical Centre audit, significant delays were experienced due to a Board of Directors decision to withhold finalization of the financial statements until certain matters from the March 31, 1989 fiscal year could be renegotiated with the Federal Department of Veterans Affairs and the Provincial Department of Health and Fitness. Although the field work was completed in August 1989, the financial statements were not finalized and released until January 1990, with the result that over 200 additional hours were required by our staff.

- For the Cancer Treatment and Research Foundation, we experienced a situation where client preparedness was not to the state of readiness we had requested, although they had assured us that the records were ready for audit. Accordingly, this audit performed during the months of July and August 1989 required an additional 75 hours audit work on our part.

- The Housing Development Fund audit had a unique situation which did not add materially to the total hours required by our Office. There was a delay of three months from completion of the field work in mid-September to finalization of the financial statements in mid-December 1989. This was wholly attributable to the fact that Metropolitan Trust was unable to confirm, for audit purposes, the outstanding loans from them to the Fund for a period of four months from the initiation of the first request.

The total excess hours required for the first four of the above noted situations amounts to approximately 1600 hours. This is the equivalent of more than one person-year and caused considerable scheduling problems for our Office, because we had planned the finalization of all our financial statement opinion audits by October 1, 1989, so as to have staff available for special audit assignments conducted in the fall of 1989 in the universities, school boards, and departments of government.

Until this year we have not followed the practice of billing auditees in situations where we encounter unreasonable time and cost overruns in the performance of our audits due to deficiencies on the part of the client, which should have been overcome by them. However, this year we have billed the Nova Scotia Business Capital Corporation, the Victoria General Hospital, and Camp Hill Medical Centre for substantial amounts in excess of what our normal billings would have been.

However, the recovery of a portion of these excess costs is not a solution to the problem because it merely reflects a transfer of dollars from one government operation to another, without alleviating a serious scheduling problem for our Office. Our scheduling commitments for the transfer payment, crown corporation and special audit areas are ones which are becoming increasingly more demanding and rigid. Therefore, we will have to receive a far greater degree of support in certain of our audits to permit them to be finalized by September 30, within six months of their year-end, not an unreasonable expectation.

Cash and Other Losses

Pursuant to Section 8 (1) (e) of the Auditor General Act, I report the following incidents where *"there has been a deficiency or loss through fraud, default or mistake of any person"*, for the fiscal year ended March 31, 1989.

Department of Advanced Education and Job Training

Equipment valued at $3,120 was stolen in two separate instances at institutions operated by the Department during the year. There was one case at the Adult Vocational Training Module in Truro totalling $2,500 and one case at the Nova Scotia Institute of Technology in Halifax totalling $620. Although both cases were investigated by police, there have been no recoveries or arrests made.

Department of Lands and Forests

Equipment valued at $4,500 was stolen or destroyed in three separate instances at three locations in the Province. There were two cases totalling $2,500 and one case where a depot was vandalized with damages totalling $2,000. An individual was arrested and convicted and a recovery of $700 was received for the damaged depot. There were no other recoveries or arrests made.

Department of Transportation and Communications

The value of equipment stolen or lost during the fiscal year is estimated to be $34,357. There were 22 cases at various locations throughout the Province with no recoveries or arrests made.

Other

Another situation which involves a loss in excess of $5,000 due to suspected falsified documentation is currently under police investigation.

Nineteen other losses were reported which totalled $2,433. These were principally equipment losses and some minor cash amounts stolen or lost. No recoveries were made.

Nova Scotia Business Capital Corporation Loan Portfolios

Summary

Background — The Nova Scotia Business Capital Corporation (NSBCC) has administrative responsibility for the loan portfolios of Government relating to commercial, industrial and tourism borrowing, and includes the loans and guarantees of the Industrial Expansion Fund, the Industrial Loan Fund, Industrial Estates Limited, and the Nova Scotia Business Capital Corporation. Their combined loan portfolios at March 31, 1989 were in excess of $173 million. This does not include the Small Business Development Corporation.

Many of the comments in this article relate to the overall control or integrity of the loan administration process or functions, not all of which were totally or directly within the realm of NSBCC's responsibilities or control.

Certain, but not all, administrative responsibilities of the four entities were assigned to the Nova Scotia Business Capital Corporation (NSBCC), but four departments — Small Business Development, Industry Trade and Technology, Attorney General, and Finance — retained responsibilities for other functions and specific accounts.

Audit Results — The principal audit findings are as follows.

- Considerable difficulties were encountered in completing our audits of the four entities, primarily because of problems locating adequate support documentation for certain accounts or transactions initiated or administered by other departments. To a large extent these difficulties were beyond the direct control of NSBCC management or Board.

- Audit field work was completed on June 30, 1989 for each of the four entities. Between that date and the final release of the financial statements in December, significant time and effort was expended in clearing outstanding issues relating mostly to locating supporting documents, and resolving questions on the legal status and authority of the Corporation.

- These problems and delays notwithstanding, we were able to express an unqualified opinion on the March 31, 1989 financial statements for all four entities.

- There was evidence of serious inadequacies in the administrative and control structures for the loan function which may be highlighted as follows:

  — fragmented responsibilities for administration of certain segments of the loan function;

  — disparities in documentation for loans and borrower security; and

  — variations in type and adequacy of loan follow-up procedures.

We have recommended that the administration and control of all the loan funds, including the responsibility for determination and monitoring of procedures for documentation, disbursement, and collection follow-up, be consolidated under the direct control of NSBCC. These recommendations have been made because of the need for sound and consistent financial management practices throughout all phases of loan administration.

Introduction

Legal Authority — The Business Capital Corporation Act was passed by the Nova Scotia Legislature and proclaimed in part to become effective April 1, 1988. There are additional pieces of legislation relating to the granting of loans by Government, such as the Industrial Development Act, the Industrial Loan Act, and the Venture Corporations Act. These acts provide to a designated Minister of Government or the Governor in Council, sole discretion regarding the approval of loans, terms and conditions related thereto, and amendment to these terms and conditions. Also, the delegation of responsibilities for administration of the accounts and related matters must be formally communicated in writing by the Minister concerned to whomever is to assume these responsibilities.

For 1988-89 some (but not all) of the ongoing administrative responsibilities of the following entities were performed by NSBCC:

— Industrial Expansion Fund (including loans under the Venture Corporations Act);

— Industrial Loan Fund;

— Industrial Estates Limited; and

— Nova Scotia Business Capital Corporation (including the Nova Scotia Business Capital Corporation Fund).

Four departments — Small Business Development, Industry Trade and Technology, Attorney General, and Finance — retained responsibilities for certain functions or specific accounts.

Audit Responsibility — The Auditor General is the appointed financial statement auditor of these four lending entities.

Section 7 (d) of the Auditor General Act requires the Auditor General to examine and ascertain whether essential records are maintained, and whether the rules and procedures applied are sufficient to safeguard and control public property. Accordingly, significant inadequacies in the administration of government assets, either from an accounting or a management control standpoint, must be reported upon.

The size of the asset portfolio for the four entities under the administration of NSBCC is in excess of $173 million, the largest single amount of capital asset base within Government, excluding physical plant. Accounting and control procedures, as well as the administrative authorities and routines associated with managing this portfolio, must be adequate to allow NSBCC to fulfill its responsibilities.

Audit Results

Overall Commentary — Considerable difficulties were encountered in completing our audits of the four entities. Many of the comments in this article relate to the overall control or integrity of the loan administration process or functions, not all of which were totally or directly within the realm of NSBCC's responsibilities or control.

Audit field work was completed on June 30, 1989 for each of the four entities. Between that date and the final release of the financial statements in December, significant time and effort were expended in clearing outstanding issues. These involved locating documentation for certain accounts or transacations initiated or administered by other departments; and resolving questions on the legal status and authority of the Corporation.

During the entire 1988-89 fiscal period, and for more than seven months following, NSBCC performed most, but not all administrative responsibilities for the four entities including the Venture Corporations Board without having the required delegation to do so. It was not until November and December 1989 that the necessary Orders in Council and ministerial authorizations were issued to NSBCC for the assumption of certain administrative responsibilities relating to the Industrial Loan Fund, the Industrial Expansion Fund, and the Venture Corporations Board.

The absence of the requisite legal and ministerial authorities during the year had a significant impact upon the efficiency of the ongoing administration and control of loans made through the four entities.

Notwithstanding the problems and delays encountered, we were able to express an unqualified opinion that the financial statements of all four entities present fairly their financial positions as at March 31, 1989 and the results of their operations for the fiscal year then ended.

During our audits there was evidence of serious inadequacies in the administrative and control structures in place for the loan function, whether assigned to NSBCC or other departments. These inadequacies may be highlighted as follows.

- Fragmented responsibilities for administration of certain segments of the loan function.
- Disparities in documentation for loans and borrower security — with resultant loss of key documentation.
- Variations in type and adequacy of loan follow-up procedures.

More specifically we found:

- Loans, guarantees and other transactions through the Funds which NSBCC is administering can be and have been arranged, authorized and initiated without formal input from or communication with the NSBCC Board or management.
- Our procedures identified transactions which had neither been recorded in the books maintained by NSBCC nor in the Province's accounts, because the appropriate information exchange had not occurred.

In recognition of the magnitude of the responsibilities for the loan portfolios and inadequacies found by our audits, we have suggested that the administration and control of all these loan funds be consolidated under the direct control of NSBCC. To provide for an accountability relationship which is appropriate for this type of loan administration we have specifically recommended that:

- Accounts for all loans and guarantees of the four entities should be maintained by the staff of NSBCC.

- All files, including supporting documentation for security provisions, should be available to NSBCC on a continuing basis.

- All disbursements and guarantees must meet approval and documentation requirements established by NSBCC, and be formally approved by NSBCC prior to being initiated.

- NSBCC must be in a position to monitor borrower repayments, and to ensure its own minimum collection procedures and requirements are being met.

On the basis of other financial administration and control deficiencies which we identified, we have also recommended specific improvements in procedures for certain aspects of the accounting process. These include recommendations for improved documentation requirements and controls over documents, and more timely and complete communications to NSBCC of all decisions regarding matters pertaining to loans and guarantees.

Industrial Estates Limited — We have advised management that consideration should be given to revising their accounting policies relating to two matters, in order to have these policies in accordance with contemporary accounting practices. The two matters are:

— accounting for proceeds of sale on lots within industrial parks, in order to provide a basis for determining gain or loss on sales; and

— valuation of individual industrial parks to reflect permanent declines in value when such declines result in a carrying cost in excess of fair market value.

Venture Corporations Board — The Venture Corporations Board was established to administer the Venture Corporations Act, and is empowered to recommend to the Minister of Small Business Development the granting of unsecured loans to private sector venture capital corporations. The Board provides an unsecured loan to the venture corporation, matching the corporation's equity, and the total of these funds is invested in a small business venture known as an eligible investment.

The Board obtains information on the activities of the venture capital corporations under Sections 15 and 16 of the Venture Corporations Act. These sections require the annual submission of information returns and financial statements. This information is necessary to assess whether the activities of the corporations comply with the Act, and to evaluate the potential for recovery of loans to these corporations.

As at March 31, 1989 there were 69 venture corporations registered. There are several provisions in the Act requiring information returns and/or financial reports to be forwarded to the Board within specific time periods, after the venture corporation's

fiscal year end. Section 8 of the Act requires venture corporations to have minimum levels of equity. Also eligible investments must be at a required percentage of equity at the end of the first and second years after registration.

Based on our audit we determined the following.

- Four venture corporations have not filed audited financial statements or annual information returns, and one has not filed an annual information return.

- Twenty-one venture corporations filed audited financial statements late, on average 204 days.

- Nineteen corporations filed annual information returns late, on average 186 days.

- Fourteen venture corporations did not have the required levels for equity or eligible investments required by the Act.

However, we wish to acknowledge that since our audit report of March 14, 1989, procedures have been implemented to monitor venture corporations more closely.

At March 31, 1989 the Venture Corporations Board had outstanding advances on its accounts totalling $10,997,206 against which an allowance for doubtful accounts of $6,453,764 had been set up. The allowance consists of a full provision for loans known to be uncollectable, plus a partial provision against all other loans. This is necessary because of the high risk nature of the venture investments, and the ten-year interval between disbursement of a loan and the commencement of repayments.

Concluding Remarks

From our foregoing commentary on administrative and control deficiencies found in the course of our audit, and the recommendations we have made to address them, two significant loan management principles emerge.

- The responsibility to ensure that all administrative and legal requirements are met both at the time of loan disbursement and during the period it is outstanding is paramount, and should not be handled other than in a manner commensurate with sound lending practices. To do otherwise increases the risk of financial loss to the Province.

- There must be a competent and independent review of compliance with loan conditions at the time of disbursement, and an active and independent monitoring of ongoing loan payments as well as compliance with all terms and conditions. In our view there should be an appropriate separation of responsibilities between those promoting and those negotiating loans; and also between those with the negotiating responsibilities and those responsible for the disbursement, compliance and collection functions.

The observations and recommendations in this article reflect the situation which prevailed during the course of our audit to its completion in December 1989. We have not attempted to consider possible realignments of certain responsibilities which might emanate from announcements made in December 1989 regarding certain of the four lending entities.

Portland Estates Limited

The Public Accounts Committee requested at its December 13, 1989 meeting that the Auditor General prepare a report on Portland Estates Limited, detailing financial involvement of the Province with the Corporation from the 1970's to the present.

A report dated January 5, 1990 was provided for the Committee. It repeated narrative and quantitative data included in the March 31, 1980 and 1985 Annual Reports of this Office, updated to reflect transactions from December 31, 1985 to November 28, 1989 (the date at which, under foreclosure action, the properties were acquired for $10 million by First City Trust Company, the first mortgage holders). The report showed the details of the various amounts involved in the Province's dealings with the Corporation, which resulted in a loss to the Province of $8.5 million.

This report was discussed at a meeting of the Committee held January 10, 1990.

Provincial Retirement Plans

Introduction

The Auditor General is responsible for auditing the Public Service Superannuation Fund and the Nova Scotia Teachers' Pension Fund annually. Each audit results in an opinion on the balance sheet and the statement of continuity of the Fund. Included in these audits is a review of contributions received, investments, and pension payments made.

The Funds' positions in relation to future pension commitments are not assessed by my Office. Actuaries qualified by the Canadian Institute of Actuaries conduct this assessment, and actuarial reviews of the two Funds are performed on a regular basis.

The actuarial valuation of a pension fund is a relatively complicated process. It involves mathematically forecasting future expectations for the pension plan, taking into consideration factors such as anticipated salary progression, estimates of inflation, the rate of return on invested funds, and probable rates of employee retirement, death, or disability.

The actuary prepares an "actuarial balance sheet" which shows the present value of liabilities for pension benefits earned to that date for pensioners and for active employees still working, anticipated future benefits earned to date payable for active employees, and expected refunds of contributions upon death or termination of current employees. From the total liabilities so calculated is deducted the current value of all investments in the fund at the date of the actuarial balance sheet. When these liabilities exceed the available assets, it represents an unfunded actuarial liability. This means the pension plan has commitments to be met in the future for which funding has not been provided.

It has been the practice of this Office to comment on the results of the actuarial valuations because the unfunded liabilities of both plans are relatively large. In my 1987 Annual Report, I discussed the most recent actuarial report on the Teachers' Pension Fund at July 31, 1984 and the Public Service Superannuation Fund at March 31, 1987. Since then, there has been an actuarial review of the Teachers' Pension Fund at July 31, 1988. There have been no further actuarial reviews of the Public Service Superannuation Fund.

Public Service Superannuation Fund

The most recent actuarial valuation of this Fund was at March 31, 1987, with the next one planned for March 31, 1990. The following are the principal matters relating to the Fund as mentioned in my 1987 Annual Report.

- The unfunded liability at March 31, 1987 was $240.6 million, which compared favourably with $252.5 million at June 30, 1984. The decrease of $11.9 million was attributable to better investment returns and lower salary increases than previously assumed.

- The unfunded liability of $240.6 million at March 31, 1987 was 24% of the present value of pension liabilities. This was a significant improvement over 1984 when the unfunded liability represented 34% of pension liabilities.

- Contributions to the Fund exceeded the costs of benefits being earned by 1.33% of covered pay, a decrease from 1.83% at June 30, 1984. This current service surplus has been reduced due to the costs of improvements in plan benefits. This excess is available to reduce the unfunded liability.

The actuaries reported that, *"In our considered opinion, . . . there is a reasonable probability that the present contributions will be sufficient over the long term to provide for the present benefits".*

Teachers' Pension Fund

The actuarial report on the Teachers' Pension Fund at July 31, 1988, issued in January 1989, contains the following principal conclusions.

- The unfunded liability at July 31, 1988 is $845.4 million, an increase of $174.9 million over the $670.5 million at June 30, 1984.

- Contributions by members and the matching contribution by the Province are slightly less than required to fund benefits currently being earned.

- Serious consideration should be given to either "freezing" or reducing the unfunded actuarial liability.

- The unfunded liability of $845.4 million is 52.4% of the present value of the pension liability. This is an improvement from the June 1984 position, when the unfunded liability of $670.5 million represented 59.5% of pension liabilities.

Several changes in the provisions and benefits of the Plan had an affect on the liabilities for the Fund. The more important ones follow.

- Provision was made for retirement at a slightly earlier age.
- The eligibility requirement for many benefits was reduced to two years of service.
- The pension to a surviving spouse was increased from 50% to 60%.

It should be noted that the Teachers' Pension Commission introduced a new computerized recordkeeping system in 1988. As a result it was possible to produce an actuarial valuation within six months of the effective date of the review, whereas the previous one had taken in excess of two years.

There were several causes for concern mentioned in the actuarial report which are repeated here.

- The assets of the fund are just over $768 million. The liabilities for those presently retired, which does not involve projections of future salary increases but does involve indexing, is almost $647 million. Thus there is only $121 million available to look after the liabilities for those not yet retired. The accumulated contributions for all non-retired teachers, not including the Province's matching contributions, are over $309 million. Obviously, the benefits for the non-retired must come largely from contributions yet to be made. In 1984 the value of the fund exceeded the value of benefits to those retired by $137 million, thus the position has deteriorated.

Cash Flow Study — Since the Nova Scotia Teachers' Pension Fund has experienced an increasing unfunded liability, the Teachers' Pension Commission has from time to time requested a cash flow study from its actuaries. The last one was done in 1983, and one was completed and reported on in April 1989.

The purpose of a cash flow study is to determine at what point, if at all, the cash inflow from contributions plus investment income will not be sufficient to meet the cash outflow requirement for pension payments. A cash flow study will estimate the point in time when it might become necessary to sell securities in a pension fund to meet benefit payout requirements.

In many respects the results of a cash flow study are of more significance than those of an actuarial review, because the impact of a large unfunded liability is reduced to the more readily understandable concept of cash requirements. This type of study focuses on an approximate point in time where the cash flow situation requires at least partial liquidation of a pension investment fund; thereby jeopardizing a fund's long-term ability to meet benefits requirements.

The actuary has concluded that there seems to be no reason to expect any cash flow problems in the next 15 years, but such problems are likely to arise shortly thereafter. This is consistent with the 1983 study which indicates no problems to around 2000, but with a trend indicating that problems might occur thereafter.

More specifically, the actuary has stated:

- There will continue to be an excess of contribution receipts plus investment income over pension benefit payments until at least 2006. This means that income will be sufficient to pay benefits.

- However, contribution receipts will become less than pension benefit payments in the near future.

- Securities may have to be sold to pay benefits commencing in 2007.

Concluding Remarks

As of the last actuarial valuation in 1987 the unfunded liability of the Public Service Superannuation Fund had decreased in absolute terms, as well as in proportion to pension liabilities. The contributions to the Fund exceeded the current service cost. This improvement in the unfunded liability position was encouraging.

The level of the unfunded liability in the Teachers' Pension Fund has risen substantially and has to be a matter of some concern. Moreover, current contributions do not cover the cost of current benefits being earned.

In a period of just over a decade and a half, the actuarial Cash Flow Study projects the possibility of a net cash flow deficiency for the Teachers' Pension Fund. The primary reason for this situation is that extensive improvements have been made in benefits under the plan without commensurate increases in contribution levels from the employee and employer groups. Unfortunately such disregard for a more prudent pay-as-you-go policy will ultimately result in a disproportionate share of the cost of benefits, for those on pension already and those about to go on pension, having to be assumed by active teachers and taxpayers of future generations.

Reservations of Opinion

Introduction

The provisions of Section 7 (b) and (d) of the Auditor General Act assign to me the responsibility for ascertaining whether in my opinion:

— all revenues to which the Province is entitled have been received, and that there are adequate systems and procedures to administer the revenue collecting function; and

— essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

To fulfill this responsibility it is necessary to review and evaluate the financial and accounting controls in the departments and agencies of government. The audits performed this year are tabulated in Appendix II. If certain essential controls are found to be inadequate, these deficiencies must be considered in rendering an opinion.

In addition, I have an audit responsibility for the annual financial statements of various crown corporations, boards, commissions and funds. These total 30 audits, listed in Appendix III.

Financial Statement Audits

In my Annual Report, the details of any audit qualifications concerning financial statement audits, or situations in which it was not possible to render an audit opinion, referred to as a denial of opinion, must be described in full.

This year, in the performance of our financial statement audits, we did not encounter any situations which required the expression of a qualified audit opinion or the denial of an opinion.

Departmental Audits

In the performance of our audits of departments and agencies, we found several situations where the systems and procedures were deficient to the extent that reporting is required under Section 7(b) and (d). These are described in the following paragraphs.

Advanced Education and Job Training — We examined the internal controls in a number of areas in this Department and they were found to be adequate. However, weaknesses were noted at the I.W. Akerley Campus of the Nova Scotia Community College in the system of internal control over revenue and recoveries. In our opinion the system was inadequate to ensure that revenues and recoveries are accurate, complete, and accounted for in accordance with relevant legislation and policies.

The function of receiving money was not separated from the recording of receipts, the monitoring of amounts due, and the reconciling of amounts received to amounts deposited. Also, there was no independent verification of monies received from the cafeteria, bookroom, cosmetology, and the dentural shop to the amounts deposited in the bank.

Industry, Trade and Technology — An audit of certain programs in this Department was completed during the year. We concluded that the system of control over expenditures is adequate and operating properly, except for repayable grants paid under the Special Assistance Program.

The grants paid through the Special Assistance Program are discretionary and are not normally required to be repaid, although certain ones may be repayable if stipulated in the agreement. Repayment is based on a percentage either of future revenue or future pre-tax earnings.

We examined two agreements which contained repayment clauses and found there is no system to ensure that the terms of the agreements are being adhered to.

We have been advised by the Department that corrective action has been taken.

Small Business Development — An audit of certain programs of this Department provided the basis for our opinion that the systems of control over

expenditures are adequate and operating properly, except for those concerning the Primary Resource Sector of the Provincial Employment Program.

The purpose of the Provincial Employment Program is to create short-term employment and training opportunities in two sectors, Public and Primary Resource. Under the Primary Resource component, a wage subsidy is paid to employers for persons hired to work on projects approved by the Department. The employer is responsible for hiring employees and for submitting completed applications to the Department for those employees. Two controls which are essential in such a program are on-site inspections and completed employment applications.

We examined 15 approved Primary Resource applications and found 5 projects where applications for persons hired by the project sponsor were not on file at the Department. In addition, we determined that program officers of the Department do not compare employees of the projects to the completed applications during their on-site inspections. Without applications and verification by Program Officers, the opportunity arises for a project sponsor to be paid for an employee who does not exist.

Transportation and Communications — During the past several years and again this year our audits have indicated a serious weakness in the non-Civil Service payroll system, particularly as it relates to non-certified employees. This weakness is due to the many duties of the area foremen who perform the following incompatible tasks:

— the hiring of non-certified employees;

— the preparation of time sheets which generate payroll cheques; and

— the receiving and distribution of payroll cheques.

The Department has in place certain procedures which partly compensate for this serious control weakness. However, in our view they are not adequate to wholly offset the concentration of duties in the area foremen's position, as the following tabulation indicates.

- Irregularities may be detected by reviewing union seniority rosters, but these rosters are prepared only once a year.

- The Department conducts surprise cheque handouts on occasion, which would detect fictitious employees. However, the last such cheque distribution was conducted in 1985.

- Time sheets require the approval of the superintendent or office supervisor. Our testing of the approval of time sheets revealed instances where time sheets were not properly approved.

The Department has indicated that with the introduction of the revised Maintenance Management Program being phased in over the next few years, the concentration of duties at the area foreman level will be reviewed with the objective of improving control. Additional related improvements will hopefully be achieved by the implementation of the Program.

Victoria General Hospital — Accounts receivable of the Hospital totalled $7.7 million at March 31, 1989. Receivables are generated from the provision of inpatient and outpatient services, laboratory tests and a variety of cost-sharing and other agreements with outside organizations.

We have been concerned for a number of years with the age of the Hospital's receivables, the turnover of receivables, and the magnitude of the allowance for doubtful accounts and bad debt write offs. This year, because of these concerns we performed a more detailed review of the receivables management function.

Our audit revealed the following unsatisfactory conditions:

- No one has been assigned the responsibility to follow up overdue accounts receivable.
- There is a lack of appropriate reporting to senior management of the age of accounts receivable and collection trends.
- We noted several instances where policies and procedures did not exist or are out of date and require revision.
- Numerous examples were encountered where the information required for billing purposes was received late, and information was incomplete or inaccurate.
- The accounts receivable system bills only for current month charges. Bills or statements are not prepared to include both current and prior month's charges.

Our overall conclusion is that the Hospital has an inadequate system for the monitoring and collection of accounts receivable. However, it must be acknowledged that the present inpatient and outpatient receivables system is a batch-oriented system which, by today's standards, is obsolete and has numerous system inefficiencies. The Hospital is presently in the process of replacing this system.

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STATUS PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS

Introduction

This Annual Report continues the practice commenced in 1986 of tabulating the status of all previously reported significant recommendations and observations. Last year this list included items from seven previous Reports, 1981 to 1987 inclusive.

Added to the tabulation this year are matters arising from articles included in our 1988 Annual Report, where the comment still applies, the recommendation has not been implemented, or the status is to be determined at the time of a future audit. Also included are items mentioned in last year's status article which were resolved during the current year. Where pertinent, reference is made to articles in this year's Report.

There are 57 topics noted and the following summarizes their current status.

Comment still applies, or recommendation not implemented	20
Recommendation partly or substantially implemented	14
Recommendation fully implemented, or condition no longer applies	4
Status to be ascertained at a subsequent audit	19
	57

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Page
Estimates			
• Need to realistically anticipate all major expenditure requirements.	Comment still applies in certain cases.	1988 1987 1986 1985	73 59 50-51 25-26
• Use of Result Indicators encouraged, but development and use inconsistently applied in departments.	Comment still applies in certain cases.	1988 1987	162-168 111-113
Public Accounts			
• Use of "Forecast" data in the Statement of Current Revenue and Expenditure, considered irrelevant and unnecessary.	Comment still applies.	1986 1985 1984	28 28 32
• Certain advances under the Universities Assistance Act, which do not represent realizable recoveries from outside parties, are included on the Statement of Financial Position, contrary to prudent accounting practice.	Comment still applies.	1988 1987 1986 1985	48 40 28 29

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Page
Auditor General Act			
• Recommended amendments to the Act to provide an appropriate degree of independence, particularly regarding appointment of the Auditor General and administration of the Office.	Not yet implemented.	1988 1987 1986 1985	37 30 29 31
Public Accounts Committee			
• Recommendation for various improvements in operation and structure of the Committee, relating principally to:			
— formal enunciation of Committee's role and responsibilities;	Not yet implemented.	1988 1987	52-53 42
— use of agendas and background material; and	Not yet implemented.	1986 1985	30 35
— provision for follow-up to Committee recommendations.	Not yet implemented.		
Financial Topics			
• Additional appropriations are too frequently requested by departments, and approved by Executive Council after the end of the fiscal year, often six months later.	Comment still applies.	1989 1988 1987 1986 1985	49 75 59-60 53 44, 46

Crown Agencies and Corporations			
• Recommendation that legislation is required for crown agencies and corporations to enhance their accountability by providing for consistent reporting and disclosure requirements, a definition of status, and related matters.	Not yet implemented.	1988 1987 1986 1985 1982	83 67 56-57 49-50 62
Nova Scotia Business Capital Corporation			
• Regarding administration of receiverships, the need for formal guidelines and improved administrative practices for appointment, monitoring, and reporting.	Guidelines and procedures introduced in 1989.	1988	151-162
Nova Scotia Power Corporation			
• Increase work order amount which must go to PUB for approval above $5,000.	To be evaluated at a future audit.	1988	91-99
• Avoid expensive consulting and in-house costs regarding preparation for rates applications not filed.	To be evaluated at a future audit.		
• Need for significant improvements in the effectiveness, organization and scope of the internal audit activity.	To be evaluated at a future audit.		

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Page
Departmental and Other Audit Observations			
Accounting Function Performance			
• Extensive delays encountered in finalization of three audits.	Situation still unsatisfactory, refer to article, page 154.	1988	172-173
Annual Reports of Departments			
• Deficiencies in sufficiency of information provided, and timeliness of presentation by several departments.	To be evaluated at a future audit.	1988	126-131
Boards and Commissions			
• On the basis of a review of 12 Boards, recommended:		1988	83-90
— mandate and accountability clarifications in legislation; and	Not yet implemented.		
— preparation of guidelines for accountabilities and responsibilities.	Not yet implemented.		

Department of Attorney General			
• Sheriffs' offices — deficiencies in cash receipt and disbursement practices, relating to cheque signing and cash deposits.	To be evaluated at a future audit.	1986	71-73
• Provincial Judges and Prothonotaries — improvements planned for: — internal controls for Provincial Judges Administration Units; — the Provincial Court information system; and — procedures for collection of fines.	To be evaluated at a future audit.	1988	115-120
Department of Community Services			
• Recommendations were made regarding the need to: — develop a long range plan for orderly development of Homes for Special Care; — develop formal criteria for priorization of projects; and — remedy deficiencies in the rate setting process and administration of it.	To be evaluated at a future audit.	1988	120-125

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Reference Page
Computer Related Audits			
• Insufficient attention to security and control matters at many installations throughout government.	Although marked improvement in awareness and controls, this is still a continuing concern. The EDP Advisory Committee of Management Board now requires departments to address security matters more thoroughly, and the Committee will review compliance with Government security requirements.	1988 1987 1986 1984	181-186 131-139 114-118 53
• Department of Transportation — inadequate segregation of duties in its computer installation.	Management contends not cost-effective to remedy remaining control deficiencies.	1985	95
Department of Finance — Provincial Tax Commission			
• Recommendations regarding: — collection activities; — assessment appeals; and — other administrative matters.	Significant progress made during both 1988 and 1989 fiscal years, see article page 110.	1988 1987	132-135 85-90
Department of Government Services			
• Implementation of a long-range facilities plan on a government-wide basis.	To be evaluated at a future audit.	1988	135-146
• Charging of space to Departments and agencies.	Not yet implemented.		

Internal Audit			
• Outstanding recommendations arising from a government-wide study including:			
— need for expanded audit scope into economy and efficiency areas;	In most internal audit mandates, but not widely carried out.	1987	99-101
— need for planning and risk analysis;	To be evaluated at a future audit.	1986	94-96
— need for central internal audit resource for smaller departments; and	To be evaluated at a future audit.		
— need for staffing, training and performance enhancements.	Some progress in these areas.		
Department of Finance			
• Statement of Travelling Expenses Form needs revision to provide more detail and facilitate approval and audit.	New form drafted, not yet introduced.	1986	101-102
Department of Labour — Fire Marshal			
• Recommendations regarding:			
— the scheduling of inspections;	Some progress made since 1987, see article, page 131.	1987	102-108
— follow-up of deficiencies revealed in the inspection process;			
— monitoring of inspection performance delegated to others; and			
— related administrative and training procedures.			

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Reference Page
Provincial Retirement Plans			
• Teachers' Pension Fund — large and growing unfunded liability; and — need for actuarial reviews more frequently than every five years.	See article, page 163. Comment still applies. Now scheduled on three year basis.	1987 1986 1985 1983	141-142 120-121 93-94 44
Government Purchasing Agency			
• The Government Purchases Act should be amended to alter the Agency's reporting requirement to the Auditor General.	Under consideration by Government.	1985	63-64
Result Indicators			
• Recommendations were made regarding the need for: — a higher priority being placed on the use of result indicators; — additional policy direction in this area; — correlation in timing and content, and in the requirements of the result indicator process; and — a greater degree of analysis of performance, using result indicators.	To be evaluated at a future audit.	1988 1987	162-168 108-113

Department of Transportation and Communications			
• Regarding equipment parts inventories, extensive recommendations were made concerning: — the need to develop appropriate management policies and guidelines in certain areas of inventory management; — the accountability assignments for inventory management responsibilities; — information needs of division offices; and — the high levels of certain non-parts inventories.	On the basis of a follow-up audit in 1989 it was determined that: — Guidelines have been developed and are currently being documented. — Some of the recommendations have been implemented. — A new maintenance management system being introduced. — Currently lack data to address this problem completely, but above noted system should help address the problem.	1987	150-154
• Regarding the payroll system for non-Civil Service employees, there are significant internal control weaknesses in procedures for hiring, time documentation, and cheque distribution.	Comment still applies	1988	198
Venture Corporations Board			
• Shortcomings regarding information requirements and accounting for investments under the Venture Corporations Act.	Comment still applies.	1989 1987 1986 1985	160 155-156 126-129 97
• Lack of compliance by venture corporations with information filing requirements of the Act.	More regular monitoring and follow-up procedures introduced in 1989.	1989 1987 1986 1985	160 155 128 96

Summary of Previously Reported Recommendations and Observations	Status — at Preparation of 1989 Annual Report	Reference Year	Reference Page
Victoria General Hospital			
• Recommended enhancement of internal audit activity to operational areas.	Comment still applies, even though function reactivated in mid-1987.	1981	38-39
• Significant weaknesses in financial management relating to: — hospital's financial information system;	Refer to article, page 78.	1981	40-42
— lack of a management service function which goes beyond data processing responsibilities; and — administration of the budget process.	Improved system targeted for implementation over next two to three years. Hospital has decided to place greater emphasis on management services. Some improvements introduced for both 1989-90, and 1990-91 budgets, but significant changes still required.		

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OFFICE OF THE AUDITOR GENERAL

Office of the Auditor General

Introductory Comments

In my 1988 Annual Report there was considerable discussion of the audit methodology studies undertaken to improve the efficiency and effectiveness of the Office's audit activities. One study related to financial statement audit work and the other to performance of audits in government departments. Both initiatives have resulted in improvements in the efficiency and effectiveness of our audit work, in some cases even greater than our expectations.

There are separate articles in this Report dealing with the transfer payment audits in universities and school boards, and our revised approach to government departmental audits. These are the two significant developments in our audit activities and approaches during the 1989 audit year. Unfortunately, the year was marked by instances of lack of priority and preparation in several entities for whom we conduct financial statement opinion audits. The result was that we experienced considerable delays and spent excessive time on these audits. This topic is described in a separate article.

In the summer of 1989, we completed the staffing realignments to effect a significant reorganization of audit activities in the Office. It involved the creation of one additional Audit Director position, but more importantly a realignment of both audit and associated administrative functions to permit a more balanced sharing of responsibilities in the six key areas of audit activity — financial statement audits, department audits, computer related audits, crown corporation reviews, transfer payment audits, and special audit assignments.

Staff Complement

The Office received approval from Management Board effective April 1, 1989 to increase its complement from 33 to 35, primarily to staff the transfer payment audit mandate. Recruitment took place and although the market for professional accountants has tightened somewhat over the past year, we were able to engage two chartered accountants.

During calendar year 1989 two staff professionals moved to other positions in Government. One went to the Nova Scotia Securities Commission, the other to the Department of Education. Although the loss of professional staff adds to the pressure on those remaining until replacements are engaged, I have to express satisfaction that these opportunities are available to members of our staff.

The approved staff complement at December 31, 1989 was 35 and comprised:

Senior Staff		6
Auditor General, Deputy and Assistant Auditor General, and three Directors		
Audit Teams and Support Staff		25
Audit Managers and Supervisors	10	
Senior Audit Officers with Professional Qualifications	5	
Audit Officers — includes Students and Technicians	10	
Administrative Support Staff		4
		35

Financial

The Auditor General Act provides for the payment of operating expenses incurred by the Office, along with the recovery of costs and fees charged for specific examinations and audits. The approved Estimate and the actual expenditures and recoveries for the year ended March 31, 1989 are shown below, as well as the 1987-88 actuals.

The net expenditures for the current year are approximately $100,000 greater than for 1987-88. There are two reasons for this. The average staff complement was two and a half persons greater during the past year, and there was a merit raise in 1989 but none in 1988. The actual expenses for the year were $31,000 less than the approved estimate. This was primarily due to the fact that we did not operate with a full complement during the entire year.

	1988-89		1987-88
	Estimate	**Actual**	**Actual**
Expenditures			
Salaries and benefits	$1,468,600	$1,432,161	$1,329,799
Other	173,900	164,505	170,552
	1,642,500	1,596,666	1,500,351
Recoveries	152,500	137,500	141,500
Net Expenditures	$1,490,000	$1,459,166	$1,358,851

Professional Development and Affiliations

There is a continuing need to maintain a high degree of competence directly related to the performance of our legislated and other audit responsibilties. These include developments in audit and accounting standards and techniques, contemporary computer literacy demands which have both audit and administrative ramifications, and an ability to perform assignments which go beyond the more traditional financial statement opinion and compliance audits. There is also the increasing expectation of legislative auditors for greater breadth and depth of audit coverage, such as the transfer payment audit mandate recently assigned to this Office.

We pursue various initiatives to meet these demands and to provide better and more efficient audit performance and service. These include membership in professional and other appropriate associations and organizations, active participation in the exchange of information with other legislative auditors, the conduct of our own technical seminars and attendance at ones presented by others.

During 1989 staff were trained in audit techniques in seminars given by members of our own staff and the Institute of Chartered Accountants of Nova Scotia. (Members of internal audit staff from other departments of government were invited to attend those sessions presented by our Office.) Computer audit and related courses were conducted by our own specialists and there was attendance at seminars presented by professional associations and other educational bodies.

A number of management courses for our professional staff were taken from offerings of the Civil Service Commission and a broad scope auditing course was presented to our audit professionals by members of our own staff.

In July 1989 the 17th Annual Meeting of the Canadian Conference of Legislative Auditors was held in Edmonton. This Conference is held in conjunction with a meeting of the Canadian Council of Public Accounts Committees. It brings together Legislative Auditors from all Canadian jurisdictions and provides a useful forum for sharing ideas and exchanging information relevant to our work as Legislative Auditors.

In addition, the Atlantic Provinces Legislative Auditors meet annually. This year the two-day meeting was held in Halifax in October 1989. These meetings provide an opportunity to review items of interest and concern at a different level than the national conference affords, and also facilitate a degree of cooperation and interchange in various areas.

We maintain a membership in the Canadian Comprehensive Auditing Foundation. The Foundation sponsors an annual conference which was held in Toronto in November 1989. The conference presented a range of sessions on audit experiences and research initiatives, with a particular emphasis this year on developments with respect to accounting for effectiveness. It is our experience that the sessions presented are quite relevant to the audit responsibilities of our Office in Nova Scotia.

We currently have seven students enrolled in the professional accounting programs of the Society of Management Accountants and the Certified General Accountants Association. These students take evening courses at university, or correspondence courses from their respective accounting associations, supplemented by tutorial assistance for certain courses. In addition, members of our staff provide a degree of assistance to the students in preparing them for their examinations.

One of our staff was successful in attaining her Certified Management Accounting designation upon successful completion of the program and the passing of qualifying examinations. We congratulate this person for attaining her professional accounting designation, a significant achievement on her part.

Several of our staff participated extensively, generally on their own time, in professional organizations by serving on councils and committees. We commend these individuals for the contribution they are making, and are pleased to be in a position to provide this resource to the respective organizations which they serve.

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APPENDICES

APPENDIX I

Auditor General Act

Section 7

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the capital and revenue receipts;

(ba) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(c) money has been expended for the purposes for which it was appropriated by the Legislature, and the expenditures have been made as authorized; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

Section 8

(1) The Auditor General shall report annually to the House of Assembly the results of his examination and call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province; or

(b) any public money was not duly accounted for and paid into the Consolidated Fund; or

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature; or

(d) an expenditure was not authorized or was not properly vouched or certified; or

(e) there has been a deficiency or loss through fraud, default or mistake of any person; or

(f) a special warrant, made pursuant to the provisions of the Provincial Finance Act, authorized the payment of money;

(g) money which is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency,

and to any other case that the Auditor General considers should be brought to the notice of the House of Assembly.

(2) The report of the Auditor General shall be laid before the House of Assembly on a day following the day upon which the Public Accounts have been laid before the House of Assembly.

(3) Whenever a case of the type described in clause (a),(b) or (e) of subsection (1) comes to the attention of the Auditor General, he shall forthwith report the circumstances of the case to the Minister.

(4) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of government of any significant matter discovered in an audit.

(5) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

Section 14

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

Section 16

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.

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APPENDIX II

Audits Performed by Auditor General

In Government Departments

Advanced Education and Job Training
- Department operations
- National Training Claim
- Student Assistance

Agriculture and Marketing
- Department operations
- Farm Loan Board operations
- Nova Scotia Agricultural College

Attorney General
- Criminal Injuries Compensation Board
- Legal Aid Federal Claim
- Legal Aid Trust Fund
- Registry of Joint Stock Companies

Community Services
- Canada Assistance Plan
- Grants and Assistance
- Young Offenders Act

Consumer Affairs
- Amusements Regulation Board
- Department operations
- Financial Institutions and Revenue Division
- Insurance Premiums and Fire Prevention Tax Revenues
- Orderly Payment of Debts

Education
- Department operations
- Museum claims

Finance
- Additional appropriations
- Cash and manual cheque control
- Payroll
- Pension fund investments
- Provincial Tax Commission

Fisheries
- Department operations

Government Services
- Client Services — Systems and Computer Services
- Department operations
- Telecommunications

Health and Fitness
- Commission on Drug Dependency
- Community Health Services
- Department operations
- Hospital construction grants
- Medical Services Insurance
- Payments to institutions

Housing
Department operations
Industry, Trade and Technology
Department operations
Labour
Office of the Fire Marshal
Lands and Forests
Department operations
Forest Protection
Land Services
Parks and Recreation
Mines and Energy
Department operations
Municipal Affairs
Department operations
Small Business Development
Department operations
Solicitor General
Department operations
Young Offenders Act
Tourism and Culture
Department operations
Transportation and Communications
Capital equipment
Capital expenditures
Current expenditures
Supplies inventory

Note — The above tabulation includes the Special Departmental Reviews described in the section of this Report beginning on page 96.

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APPENDIX III

Audits Performed by Auditor General

Crown Corporations, Boards, Commissions, and Funds

Agricultural Organizations

Community Pastures Board
Nova Scotia Crop and Livestock Insurance Commission
Provincial Grain Commission

Education Institution

Atlantic Provinces Special Education Authority

Hospitals

Camp Hill Medical Centre
Cancer Treatment and Research Foundation of Nova Scotia
Halifax Infirmary Foundation
Nova Scotia Hospital
Victoria General Hospital

Lending Organizations and Funds

Housing Development Fund
Industrial Estates Limited
Industrial Expansion Fund
Industrial Loan Fund
Nova Scotia Business Capital Corporation
Nova Scotia Farm Loan Board
Nova Scotia Fisheries Development Fund
Nova Scotia Housing Development Corporation
Small Business Development Corporation

Pensions

Members' Retiring Allowance Account
Nova Scotia Teachers' Pension Fund
Public Service Superannuation Fund

Regulatory Bodies

Board of Commissioners of Public Utilities
Nova Scotia Lottery Commission
Public Accountants Board of the Province of Nova Scotia

Other

Novaco Limited
Nova Scotia Legal Aid Commission
Nova Scotia Primary Forest Products Marketing Board
Nova Scotia Research Foundation Corporation
Nova Scotia Talent Trust
Public Trustee

Note — The above tabulation does not include the four audits described in the section of this Report beginning on page 56.

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APPENDIX IV

Audits Performed by Private Sector Auditors

Crown Corporations, Boards, Commissions and Agencies

Art Gallery of Nova Scotia
Check Inns Limited
Council of Maritime Premiers
Halifax-Dartmouth Bridge Commission
Nova Scotia Liquor Commission
Nova Scotia Liquor License Board
Nova Scotia Municipal Finance Corporation
Nova Scotia Power Corporation
Nova Scotia Rehabilitation Centre Corporation
Nova Scotia Resources Limited
Schooner Bluenose Foundation
Sherbrooke Restoration Commission
Sydney Steel Corporation
Tidal Power Corporation
Trade Centre Limited
Upper Clements Family Theme Park Limited
Waterfront Development Corporation Limited
Workers' Compensation Board

Hospitals
(Agencies as defined in Auditor General Act)

Eastern Memorial Hospital
Eastern Shore Memorial Hospital
Glace Bay Community Hospital
Inverness Consolidated Memorial Hospital
Northside Harbor View Hospital
Strait — Richmond Hospital
Sydney City Hospital
Twin Oaks Memorial Hospital

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